BUDGET 2002

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BUDGET 2002

THREE-YEAR PLAN TO BALANCE BUDGET, RESTORE PROSPERITY

VICTORIA — Restoring sound fiscal management, revitalizing British Columbia's economy and addressing patient and student needs are government's top goals for the year ahead as it moves toward a balanced budget in 2004/05, Minister of Finance Gary Collins said today in releasing Budget 2002.

"This budget sets out our three-year plan to eliminate the deficit, build a strong, vibrant economy and serve British Columbians well by getting government right," said Collins. "At the same time, we're protecting funding for education and actually increasing the health care budget."

The budget is the first to include three-year service plans for ministries and Crown corporations. It details how controlled spending and stronger economic growth will take British Columbia from a forecast $4.4 billion deficit in 2002/03 to a balanced budget, required by legislation, in 2004/05.

The government is forecasting B.C.'s economy to grow 0.6 per cent in 2002, 2.8 per cent in 2003, 3.1 per cent in 2004 and 3.0 per cent in 2005. These figures are slightly more conservative than those of the independent British Columbia Economic Forecast Council.

"With our new competitive tax structure, reduced regulation and other measures we are implementing, B.C. businesses are poised to grow as global economies continue to recover," said Collins. "We will see government revenues increase and we will keep to our spending targets."

The balanced budget in 2004/05 will result from a combination of a $2.3 billion revenue increase between 2002/03 and 2004/05 and a $1.4 billion spending decrease.

"We are making difficult changes at a difficult time because there is no alternative," said Collins. "Government's debt is expected to increase from $36.4 billion to $43.9 billion by March 31, 2005. Once the budget is balanced, our debt to GDP ratio — an important measure of our fiscal health — will begin to fall. Eliminating the deficit, as quickly as possible, is essential to avoid burdening future generations with escalating debt-interest costs."

Collins noted government MLAs are leading by example by taking a five per cent pay cut. In addition, the caucus budget will be cut by 25 per cent.

Starting April 1, the Premier and cabinet ministers will be collectively and individually accountable for spending control. Ministers will incur salary penalties if they fail to meet specific budget or performance targets.

Budget 2002 ends the practice of allocating capital funds through a separate budgeting process. Capital decisions must now fit the service plan objectives and operating budgets of ministries and agencies, which will explore public-private partnerships and other measures to maximize value for capital dollars. Overall capital spending will decline after 2002/03 as construction finishes on current projects and fewer wholly government-funded projects begin.

The budget builds on the competitive tax changes government began implementing in June by expanding the range of machinery and equipment parts exempt from provincial sales tax. Budget 2002 also increases the threshold for the small business income tax rate to $300,000 from $200,000, bringing the province into line with other western provinces and Ontario. In 2002/03, these two measures will return about $25 million to B.C. businesses.

Additional budget measures will see disability-related credits increased to reduce income tax for persons with disabilities and their caregivers. These credits will be indexed annually to inflation.

Budget 2002 also fulfils a New Era commitment by introducing refunds of provincial sales tax on school purchases made with funds raised by parent advisory councils.

"We will continue to review the tax system regularly to make sure British Columbia stays competitive with the rest of the country," said Collins.

Budget 2002 also reaffirms government's commitment to maximize the value of B.C.'s resource sector while encouraging emerging industries that offer significant potential for growth. Economic renewal will be achieved by revitalizing the forest industry and accelerating development of the energy and high-tech sectors.

Government will also work to expand the private sector's role in public infrastructure and service provision, and promote the province internationally through a new marketing initiative and support for the 2010 Olympic bid. Significant effort is also focused on rebuilding the economic framework by reducing the regulatory burden and by providing greater flexibility and efficiency for employees and employers.

To pay for nearly $800 million in higher health care compensation, MSP premiums will increase for most British Columbians, the provincial sales tax rate will rise to 7.5 per cent from 7.0 per cent and smokers will pay $8 more tax per carton. However, to protect low-income earners, MSP premiums will decrease or be eliminated for 230,000 people, and the refundable B.C. sales tax credit will rise to $75 a year from $50. The MSP premium and tax increases will be used to boost the Ministry of Health Services budget to $10.2 billion from $9.5 billion.

"Health care underlies the exceptional quality of life we enjoy in B.C., and its providers are in high demand," said Collins. "These increases will go toward competitive wages that encourage them to stay in British Columbia. This will help ensure we can attract and retain top-quality doctors, nurses and other health professionals."

The Ministry of Education's budget is set at $4.86 billion, and the Ministry of Advanced Education's budget is $1.9 billion, consistent with 2001/02. There is no higher priority and the budget reaffirms the government's New Era commitment to protect funding for education. In addition, with the lifting of the six-year tuition freeze, colleges and universities will have the autonomy to meet growing demand while protecting B.C.'s high quality of instruction. Budget 2002 also reaffirms the New Era commitment to increase spaces for high-tech professionals, nurses and medical students.

The government also released full third-quarter results for 2001/02, reporting a deficit of $3.4 billion, which is consistent with the second-quarter forecast released on November 22, 2001.

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Attachment.

Full budget details are available at www.gov.bc.ca online.

Contact: Ministry of Finance Communications
250 387-3347

BRITISH COLUMBIA

Ministry of Finance

BUDGET 2002 IN BRIEF

What Budget 2002 Means to You

The 2002/03 provincial budget delivers on three major government commitments:

- To restore sound fiscal management;
- To revitalize the economy; and
- To put patients and students first.

The government's first full budget protects funding for health care and education. It's also a major step toward balancing the budget and maximizing the province's opportunities for new growth and increased private-sector investment.

Reasonable, responsible, affordable and realistic, Budget 2002 sets out a plan to build a strong, vibrant economy and to serve British Columbians well by getting government right. Ultimately, it is a clear, three-year path to renewed hope and prosperity.

RESTORING SOUND FISCAL MANAGEMENT

A First in Detailed, Three-Year Service Plans

- Budget 2002 is the first to include three-year service plans for ministries and Crown corporations. These will be reviewed and updated annually to reflect progress and changing economic and financial circumstances.
- The three-year fiscal plan is based on two main strategies: building a strong, vibrant economy and eliminating the deficit.

Responsible, Accountable Management of Tax Dollars

- As required by legislation, a balanced budget is forecast for 2004/05. This will follow forecast deficits of $4.4 billion in 2002/03 and $1.8 billion in 2003/04.
- After 2002/03, revenues will increase by $2.3 billion and spending will decrease by $1.4 billion, combining to reduce the deficit to zero by 2004/05.
- The fiscal plan is based on most-likely economic and revenue forecasts. The government is forecasting B.C.'s economy to grow 0.6 per cent in 2002, 2.8 per cent in 2003, 3.1 per cent in 2004 and 3.0 per cent in 2005. These figures are slightly lower than those of the independent British Columbia Economic Forecasting Council.
- Funding will be preserved for health and education. All other ministry spending will be cut by 25 per cent over three years.

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- To show leadership in controlling government's costs, all government MLAs are taking a five per cent pay cut, and the government caucus budget has been reduced by 25 per cent.
- Starting April 1, the Premier and cabinet ministers will be collectively and individually accountable for spending control. They will incur cabinet salary penalties of up to 20 per cent if they fail to meet specific budget or performance targets.

Why We Have a Deficit

The $4.4 billion deficit for 2002/03 results from a number of factors, including:

- An underlying, structural deficit;
- Weak revenues that reflect the global economic slowdown and lower commodity prices;
- Ongoing investment in a competitive personal and business tax structure;
- One-time costs associated with restructuring government (e.g., severance and lease termination);
- Increased compensation costs associated with recruiting and retaining health-sector workers and professionals for whom demand is high that are offset by specific revenue measures;
- The first phase of three-year spending cuts; and
- A $750 million forecast allowance to protect budget targets against economic risks and revenue shortfalls.

Total government debt is expected to increase over the next three years. Eliminating the deficit, as quickly as possible, is essential to avoid burdening future generations with escalating debt-interest costs. Once the budget is balanced in 2004/05, the ratio of taxpayer-supported debt to GDP is expected to decline.

An Improved Capital Plan

- Capital funds are no longer allocated through a separate budgeting process. Instead, integrated operating and capital budgeting decisions will be driven by service plan objectives and ministry operating budgets. Ministries must meet all operating, maintenance, amortization and debt-interest costs associated with capital facilities.

REVITALIZING THE ECONOMY

A Better and More Competitive Tax System for B.C.

- Budget 2002 builds on the new competitive tax system the government began introducing last summer, by expanding the range of machinery and equipment parts exempt from PST and increasing the threshold for the small business income tax rate to $300,000 from $200,000. In 2002/03, these measures will return about $25 million to B.C. businesses.

- Streamlining measures in the budget include rewriting legislation to reflect the elimination of corporation capital tax on non-financial corporations.
- To improve fairness, disability-related credits will be increased to reduce income tax for persons with disabilities and their caregivers. These credits will be indexed annually for inflation.
- Budget 2002 also implements a New Era commitment by refunding PST on school purchases made with funds raised by parent advisory councils.
- Last year, government cut provincial personal income tax by at least 25 per cent for all taxpayers and by 28 per cent for those in the lowest tax bracket.
- British Columbians now pay the lowest rate of provincial personal income tax on their first $60,000 of income and enjoy the second-lowest top marginal tax rate in Canada. For businesses, the corporation income tax rate fell to 13.5 per cent from 16.5 per cent on Jan. 1, the corporation capital tax on non-financial corporations will be eliminated September 1, 2002, and a new provincial sales tax exemption was introduced for production machinery and equipment on July 30, 2001.

B.C. is Back

Budget 2002 reaffirms government's commitment to maximize the value of B.C.'s resource sector while encouraging emerging industries that offer significant potential for growth. This means:

- Revitalizing the forest industry by moving towards a market-based stumpage system, introducing tenure reforms, providing greater certainty through a working forest base, and streamlining the Forest Practices Code;
- Accelerating development of the energy sector through a new royalty and regulatory structure to encourage the development of coalbed methane, infrastructure projects to improve land access, and a single-window process to speed up and streamline the granting of energy permits;
- Reducing the regulatory burden and levelling the playing field for investment by eliminating business subsidies;
- Supporting mineral exploration and development;
- Working with the Premier's Technology Council to make B.C. one of the world's leading technology centres;
- Encouraging a greater private-sector role in providing public infrastructure and services through P3s and alternative service delivery models;
- Realizing economic benefits by promoting B.C. to the world through the 2010 Olympic bid and a new effort to brand the province; and
- Fostering growth in other sectors, including agriculture and aquaculture, as well as film and television production and new media.

PUTTING PATIENTS AND STUDENTS FIRST

Increased Compensation for Our Health Professionals

- Budget 2002 includes several revenue measures to pay for compensation increases in the health sector and thereby ensure the recruitment and retention of nurses, doctors and other skilled workers.

- To pay for the nearly $800 million in compensation increases in 2002/03, effective February 20, 2002 the provincial sales tax (PST) rate will rise to 7.5 per cent from 7 per cent and the tobacco tax rate will increase by $8 a carton. In addition, MSP premiums will increase by 50 per cent on May 1, 2002.
- To protect low-income earners, MSP premiums will decrease or be eliminated for 230,000 people, and the refundable B.C. sales tax credit will rise to $75 a year from $50.

Improving Patient Care Through Better Fiscal Management

- Budget 2002 increases the budget for the Ministry of Health Services to $10.2 billion from $9.5 billion to help pay for the cost of recruiting and retaining high-demand health sector workers.
- As a result of the streamlined governance structure introduced in 2001, health authorities will be able to reduce administrative costs, realize economies of scale and maximize the value patients receive for every health-care dollar.

Improving Learning Conditions

- The Ministry of Education's budget is $4.86 billion, and the Ministry of Advanced Education's budget is $1.9 billion, consistent with 2001/02.
- Lifting the six-year tuition freeze will help colleges and universities access the resources they need to meet growing demands while protecting B.C.'s high quality of education.
- Initiating a $45 million partnership with the private sector to establish 20 research chairs — in the fields of medical, social, environmental and technical research — will help attract the expertise B.C. needs to compete and lead in the knowledge-based economy.
- Budget 2002 supports government's commitment to double the number of graduates in computer science, electrical engineering and computer engineering in the next five years, to promote growth of the high-tech sector.
- The government will also work with B.C. universities to increase the number of medical school graduates and will increase the number of student spaces for nurses and residential care aides over the next three years.

Third-Quarter Results for 2001/02

The deficit for 2001/02 now is forecast to be $3.4 billion, excluding the one-time pension adjustment of $1.4 billion, consistent with the second-quarter update.

BUDGET LEGISLATION SUMMARIES

TITLE OF BILL:

Bill 2 — *Budget Measures Implementation Act, 2002*

SPONSORING MINISTER:

Honourable Gary Collins
Minister of Finance

PURPOSE:

This bill amends nine statutes to implement non-tax initiatives announced in the 2002 provincial budget reports: *Emergency Program Act*, the *Financial Administration Act*, the *Fisheries Renewal Act*, the *Forest Renewal Act*, the *Grazing Enhancement Fund Special Account Act*, the *Industrial Development Incentive Act*, the *Natural Resource Community Fund Act*, the *Science and Technology Fund Act* and the *Small Business Development Act*.

SUMMARY OF MAIN PROVISIONS:

Emergency Program Act

- section 16 (1) is amended to ensure expenditures from the statutory appropriation are limited to responding to imminent or actual emergencies or disasters.

Financial Administration Act

- as part of the restructuring of the capital planning process, section 56.1 (2) is amended to enable the Ministers of Education, Advanced Education and Health Services, or another Minister designated by the Lieutenant Governor in Council, to issue prepaid capital advances to their respective institutions (i.e., school districts, universities, colleges and institutes, health authorities);
- the current section 56.1 (2) provides that all prepaid capital advances are to be made by the Minister of Finance.

Fisheries Renewal Act

- repeals Act effective March 31, 2002;
- dissolves Fisheries Renewal BC (FishRBC) and rescinds appointments to FishRBC board;
- transfers all FishRBC assets to the government and deems references to FishRBC in documents to be references to the government;
- provides authority to pay any FishRBC debts or liabilities assumed by the government out of the Consolidated Revenue Fund; and
- removes provisions of the Act that require a business plan be prepared and presented to the Legislative Assembly for the 2002/03 fiscal year.

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Forest Renewal Act

- repeals Act and Supplement effective March 31, 2002;
- dissolves Forest Renewal BC (FRBC) and rescinds appointments to the FRBC board;
- transfers all FRBC assets and liabilities to the government and deems references to FRBC in documents to be references to the government;

- removes provisions of the Act that require a business plan be prepared and presented to the Legislative Assembly for the 2002/03 fiscal year; and
- removes related consequential amendments to other Acts (e.g. *Forest Practices Code Act*)

Grazing Enhancement Fund Special Account Act

- legislation is repealed to dissolve the Grazing Enhancement Fund effective March 31, 2002.
- contributes to the government's commitment to eliminate business subsidies.

Industrial Development Incentive Act

- legislation is repealed to dissolve the Industrial Incentive Fund effective March 31, 2002;
- contributes to the government's commitment to eliminate business subsidies.

Natural Resource Community Fund Act

- legislation is repealed to dissolve the Natural Resource Community Service Fund (NRCF) effective March 31, 2002;
- the fund has been inactive for many years and is no longer needed.

Science and Technology Fund Act

- legislation is repealed to dissolve the Science and Technology Fund effective March 31, 2002;
- some activities funded under this Act are now funded from within the ministry;
- other activities have been eliminated.

Small Business Development Act

- legislation is repealed to dissolve the Small Business Incentive Fund effective March 31, 2002;
- contributes to the government's commitment to eliminate business subsidies.

TITLE OF BILL:

Bill 3 — *Taxation Statutes Amendment Act, 2002*

SPONSORING MINISTER:

Honourable Gary Collins
Minister of Finance

PURPOSE:

This bill amends four taxation statutes to implement tax initiatives announced in the 2002 provincial budget reports: the *Income Tax Act*, the *Motor Fuel Tax Act*, the *Social Service Tax Act*, and the *Tobacco Tax Act*. The bill also amends tax or royalty-related sections in three other statutes: the *Home Owner Grant Act*, the *Petroleum and Natural Gas Act* and the *School Act* for taxation purposes.

SUMMARY OF MAIN PROVISIONS:

Home Owner Grant Act

The Home Owner Grant for persons with disabilities, introduced in 1981, provides an additional $275 annually (on top of the basic home owner grant) to homeowners with a permanent disability or who are living with a person with a permanent disability. The intent of the additional grant is to provide financial relief to persons who, due to a loss of mobility, are required to make costly modifications to their home or to pay for physical assistance to allow them to live independently:

- the legislation is amended to confirm the use of the supplementary form for the years 1997-2001 inclusive and to confirm the requirement that applicants incur substantial costs for physical assistance or structural modifications in the home;
- effective for 2002, regulatory changes are introduced to eliminate the supplementary form and replace it and the old Form B with a new simplified form. The homeowner rather than a physician, will verify that costs are incurred for physical assistance or structural modifications to the home;
- a regulation is introduced to ensure that homeowners who qualified for a grant in 2001 will qualify for the grant in 2002.

Income Tax Act

- this Act is amended to:
  - — change tax adjustment rates for the overseas employment tax credit, alternative minimum tax and the credit for alternative minimum tax. The adjustment is consistent with recent reductions in federal and provincial personal income tax rates;
  - — increase the personal income tax disability-related tax credits; and
  - — increase the refundable sales tax credit by increasing the amount per adult to $75 from $50;
- Income eligible for the small business tax rate is increased to $300,000 from $200,000.

Motor Fuel Tax Act

- *TransLink* motor fuel tax rate is increased by two cents per litre, effective April 1, 2002. This reflects an agreement between the government and *TransLink* to facilitate the increase as long as *TransLink* raises an equivalent amount from other sources.

Petroleum and Natural Gas Act

- authority is provided to extend retroactively the eligibility period for acquisitions of land to which the Base 9 royalty rate for non conservation gas may be applied from December 31, 2001 to December 31, 2003;
- the Base 9 royalty is set at a minimum rate of 9 per cent, and the rate increases with the price of natural gas to a maximum of 27 per cent. The opportunity to acquire land subject to Base 9 royalties expired on December 31, 2001. Without the extension, natural gas production from land acquired after that date would be subject to Base 12 royalties — royalties that are set at a minimum rate of 12 per cent and increase with natural gas prices to a maximum of 27 per cent. At current natural gas prices, both Base 9 and Base 12 royalties are being paid at the maximum 27 per cent rate;
- authority to extend the eligibility period must be retroactive because January land sales have already occurred.

School Act

- this amendment allows the province to set different provincial residential school property tax rates for different parts of the same school district. This authority will only be used in limited situations where disparities in average values among communities in the same school district become extreme;

Social Service Tax Act

- effective February 20, 2002, the general sales tax rate is increased to 7.5 per cent from 7 per cent. Other tax rates under the *Social Service Tax Act* (liquor, vehicle surtax, and *TransLink's* parking tax) will remain unchanged. The multijurisdictional vehicle tax rates (tax paid in lieu of provincial sales tax on commercial vehicles that travel in more than one jurisdiction) will change on October 1, 2002 to reflect the general tax rate increase;
- effective July 1, 2002, the start of the school year, a refund is provided to parent advisory councils (PACs) and school boards for tax paid on goods purchased for schools with PAC-raised funds;
- a tax exemption is introduced for boats and travel trailers that are brought into the province by non-residents for non-commercial use, effective February 20, 2002;
- retroactive to January 1, 1996, the legislation is amended to allow multijurisdictional pick-up trucks and service vehicles that are licensed under a pro-rate agreement to qualify for the multijurisdictional vehicle tax;
- retroactive to March 31, 1998, an exemption is introduced for chemicals required to produce ammonium bisulfite in a pulp production process;
- retroactive to March 31, 1998, the legislation is amended to ensure that royalty payments and licence fees are taxable even if they are made in respect of goods that were purchased more than six years previously and, therefore, beyond the six year assessment period;
- effective June 1, 2002, authority is given to *TransLink* to set its parking tax rate at up to 21 per cent within the Greater Vancouver transportation service area. A binding Cost Sharing Agreement between the previous government and *TransLink* obligated the province to provide this authority.

Tobacco Tax Act

- effective February 20, 2002, the cigarette tax rate is increased by $8 per carton of 200, or to 15 cents from 11 cents per cigarette. The fine-cut tobacco tax rate is increased by an equivalent amount to 15 cents from 11 cents per gram.

TITLE OF BILL:

Bill 4 — *Corporation Capital Tax Amendment Act, 2002*

SPONSORING MINISTER:

Honourable Gary Collins
Minister of Finance

PURPOSE:

This bill amends the *Corporation Capital Tax Act* to implement tax initiatives announced in the 2002 provincial budget reports.

SUMMARY OF MAIN PROVISIONS:

Corporation Capital Tax Act

- the investment allowance currently available to credit unions is extended to banks and trust companies;
- the calculation of paid up capital for branches of foreign banks is adjusted to ensure that foreign banks are taxed in a manner that is equivalent to how domestic banks are taxed;
- the legislation is streamlined to remove all references to general corporations and special calculations previously required in respect of partnership interests.

BUDGET SPEECH

BUDGET 2002

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Budget 2002

BUDGET SPEECH

Delivered in the
Legislative Assembly
February 19, 2002
by Honourable Gary Collins
Minister of Finance

British Columbia Cataloguing in Publication Data

British Columbia.
Budget (1984)
Budget.—1984–
Annual.
Additional title: Province of British Columbia budget.
Delivered in the Legislative Assembly by the Minister of Finance, 1984–1986; by the Minister of Finance and Corporate Relations, 1987–
Continues: British Columbia. British Columbia budget (1984)
1. Budget—British Columbia—Periodicals. 2. British Columbia—Appropriations and expenditures—Periodicals. I. British Columbia. Ministry of Finance. II. British Columbia. Ministry of Finance and Corporate Relations. III. Title: Province of British Columbia budget.

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Budget 2002

TABLE OF CONTENTS

Introduction	1
The Plan	2
The Challenge	3
Financial Report	5
Restoring Sound Fiscal Management	6
Revitalizing the Economy	8
Putting Patients First	11
Putting Students First	16
Conclusion	18

Budget Speech 2002

Introduction

Mr. Speaker.

Today I want to give official notice that, on February 17, 2004, I will present this house — and the people of British Columbia — with a balanced provincial budget that will be sustainable in the years beyond.

It will be a budget that balances — not just our books — but also our capacity to meet people's needs, and maintain a prosperous economy.

It will be a budget that balances — not just our books — but also our capacity to meet people's needs, and maintain a prosperous economy.

It will be a budget that marks a turning point in B.C.'s history — a point where our future is brighter than our past.

It will be a budget that marks a turning point in B.C.'s history — a point where our future is brighter than our past.

Mr. Speaker, the government has a vision of what this province can be — and what it will be, in the not-too-distant future:

A province where every young person has the choices, and the opportunities they need to build a successful life;

Where patients have access to health-care services that meet their needs, where they live and when they need them;

Where the vital public services that all of us rely on are not only supportive, but truly sustainable, year after year;

Where we get the maximum benefit from our natural resources — and maintain the clean, healthy environment that makes us the envy of people all over the world;

Where businesses are thriving, creating new jobs and giving new hope to all of our communities;

Where a culture of innovation harnesses the great ideas people in this province are generating every day, and turns them into great ventures that benefit society;

Where we enjoy the best-performing economy in the country, with the highest levels of private-sector investment anywhere; and

Where British Columbians have confidence and pride in a province that is the best place to live, to work, to do business, and to raise our families.

Mr. Speaker, this is the government's vision for British Columbia. And we have a sound plan for turning it into reality.

It's a three-year plan that takes a balanced, phased approach to reaching our goals, and builds on the work the government started last June.

It's a three-year plan that takes a balanced, phased approach to reaching our goals, and builds on the work the government started last June.

Implementing it won't be easy. We won't get there overnight.

But, Mr. Speaker, British Columbia will get there.

We will achieve this vision of British Columbia, and we'll do it by delivering on the commitments we made about our economy, and our finances, during the election.

We promised to do three essential things:

- ***To restore sound fiscal management;***
- ***To revitalize the economy; and***
- ***To put patients and students first.***

We promised to do three essential things:

- To restore sound fiscal management;
- To revitalize the economy; and
- To put patients and students first.

The budget I am presenting today delivers on all three fronts:

It increases fundir.g for health care. It protects funding for education.

And it is a major step forward in balancing the budget, and making the most of the province's opportunities for new growth and increased private-sector investment.

It is a clear reflection of our plan for the future; our plan to restore hope and prosperity.

It is reasonable, responsible, affordable and realistic.

It is reasonable, responsible, affordable and realistic. And, Mr. Speaker, it demonstrates our unflagging commitment to serve this province, and its people, by providing good government.

The Plan

That's a massive departure from what we inherited. And — let's not mince words — it represents an enormous challenge.

The deficit for the coming year is $4.4 billion — the legacy of the last 10 years.

This is the first year of our three-year plan.

To eliminate that deficit, the province needs two things: spending control, and stronger economic growth. Our plan will accomplish both.

To eliminate that deficit, the province needs two things: spending control, and stronger economic growth. Our plan will accomplish both.

In the second and third years of our plan, we will reduce government spending — in a phased, managed way — by $1.4 billion. Revenues will increase by $2.3 billion.

That's our plan. I'll talk more about how we intend to achieve it shortly.

First, I want to discuss how we got here in the first place — and why we're stuck with such a massive deficit.

The Challenge

Mr. Speaker, all through the 1990s, British Columbians knew that something wasn't right.

They were working harder, but they weren't getting ahead. And they felt, intuitively, that we had a problem.

The fact is, our economy was no longer competitive, and the government's financial track was anything but sustainable.

Mr. Speaker, the facts showed that B.C. — once a leader, once a magnet for opportunity — turned in a dismal performance during the 1990s.

The facts showed that B.C. — once a leader, once a magnet for opportunity — turned in a dismal performance during the 1990s.

Of all the Canadian provinces, B.C. had:

- the lowest productivity growth;
- the lowest growth in private-sector investment;
- the lowest growth in per capita GDP; and
- one of the least-competitive tax regimes in the country.

Families left. Since 1998, more than 50,000 people fled to Alberta and Ontario alone.

Businesses left. The standard of living fell significantly. And people's real disposable incomes fell — year after year.

All this was during a time when the previous government was singing its praises and telling British Columbians all was well.

We believe that British Columbia, by all indications, became a have-not province in 1999-2000.

Today we know differently. We believe that British Columbia, by all indications, became a have-not province in 1999-2000.

Some people might take comfort in the fact that being a have-not means we'll get an equalization payment.

But that hardly compensates for the utter indignity — the downright shame — of seeing this great province . . . with all our talented, hardworking people, and all of our resources, and all of our advantages . . . having to take a hand-out from our neighbours in other provinces.

It's shameful, Mr. Speaker. And this is the legacy of 10 years of reckless spending, over-regulation, poor economic choices, fiscal mismanagement and a deliberately hostile business climate.

The fact that we were on the very edge of becoming a have-not province was something we all felt in our bones, and in our pocketbooks.

But one-time revenue spikes, from record-high gas and electricity prices, papered over the truth about the province's structural deficit. And I want to take a moment to clarify the difference between an operating deficit and a structural deficit.

An operating deficit happens when your spending is higher than your revenues for a short period of time.

A structural deficit is something different — something far worse. It results from a long-term pattern of consistently spending more than the government can afford — year after year after year.

But a structural deficit is something different — something far worse. It results from a long-term pattern of consistently spending more than the government can afford — year after year after year — and it can't be solved with one-time, short-term revenue spikes.

In other words, even though last year's budget was balanced, and didn't show an operating deficit, the province was headed for serious financial trouble if that surge in revenues from energy disappeared.

That was eight months ago. And since then, we've run into a long list of new economic challenges:

First of all, compared to what was forecast in March, in the last NDP budget, we've seen over a billion dollars in energy revenues vanish — as a result of falling prices and falling demand in the U.S.

Another $500 million expected from Crown corporations evaporated. And the $1.4 billion pension adjustment in last year's budget was a one-time event.

We've also seen — not just a national, but a global economic slowdown, which is particularly tough for a province like ours that relies so much on exports.

The softwood lumber dispute continues to wreak havoc on our province, and our forest-based communities.

And, finally, the events of September 11th have had a huge impact on investor confidence, on tourism, and on the world economy overall.

It's a challenge, Mr. Speaker — a challenge that we're determined to face up to for the people of British Columbia.

It won't be an easy job, but it absolutely has to be done. We have no choice, if we want to have a future.

It's going to be a massive job. But it can be done. It will be done.

It's going to be a massive job. But it can be done. It will be done.

And the numbers in our plan show how we'll do it.

Financial Report

As I mentioned at open cabinet, we are facing a deficit of $4.4 billion for the coming year. As we turn the corner and our economy starts to recover, the deficit will shrink to $1.8 billion in 2003-2004, and the budget will be balanced in 2004-2005.

We are facing a deficit of $4.4 billion for the coming year.

The economic forecast that underlies our plan calls for a recovery in the U.S. and Canadian economies in 2002.

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In 2003 and beyond, these two economies are expected to lead global economic growth.

Based on these assumptions of growth in our major markets — and the steps we're taking to get the province working again — the B.C. economy is forecast to grow 0.6 per cent in 2002, picking up to 2.8 per cent the following year.

In 2004 and 2005, the B.C. economy is expected to grow about 3.0 per cent per year.

In 2004 and 2005, the B.C. economy is expected to grow about 3.0 per cent per year — and these numbers are slightly lower than the figures projected by the independent Economic Forecast Council.

Looking at the first year of our three-year plan, the $4.4 billion deficit results from a 3.6 per cent decline in revenues, worth $815 million — and a 0.3 per cent decrease in overall government spending, which amounts to a reduction of $81 million.

We will also see a $442 million improvement in Crown corporation contributions, and a $750 million forecast allowance has been built in as a cushion against potential risks.

Without the forecast allowance and one-time restructuring costs of $230 million, the deficit for 2002-2003 would be $3.4 billion, which is about the same as the deficit forecast for the year just ending.

Revenues are forecast to grow by an average of 5.1 per cent a year in 2003-2004 and 2004-2005 — in line with the growth in nominal GDP.

The full impact of our government restructuring will kick in, with expenditures declining by an average of 2.8 per cent per year, over the same period.

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In the meantime, government debt is expected to increase from $36.4 billion to $43.9 billion by the end of the three-year plan. This reflects the combination of cumulative deficits and capital spending.

However, as the deficit moves towards zero, the growth in the debt slows down. And the taxpayer-supported debt-to-GDP ratio begins to decline in 2004-2005.

Restoring Sound Fiscal Management

These numbers are, of course, projections. But we will achieve them, because we're absolutely committed to getting our fiscal house in order.

That means getting rid of the structural deficit, once and for all, by ensuring that government spending doesn't exceed our revenues.

Mr. Speaker, we know how hard people in this province work. We understand that the tax dollars they send to Victoria are theirs — not ours.

We respect that, Mr. Speaker. We respect taxpayers. And we've promised to get the maximum value from their tax dollars.

That's why we're making government more efficient, and doing the hard work needed to get spending under control.

All government MLAs are taking a five per cent pay cut. And, as the Premier announced last week, we're cutting the budget for government caucus by 25 per cent.

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Total spending in ministries, except for health and education, is being reduced by an average of 25 per cent. That's a total of $1.9 billion over three years.

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We haven't cut across the board. Instead, we did a Core Services Review.

For seven months, we closely examined what government does — why we do it, how we do it, and whether we need to do it at all — and each ministry looked for innovative, creative ways to deliver public services more effectively and efficiently.

The process was careful, and closely considered — and not just by Treasury Board. For the first time in the history of B.C. budgets, it brought to the table MLAs representing every community — big and small, rural and urban — all across this province.

The final result is a set of comprehensive service plans, which I am tabling in full today.

The plans set out exactly what we intend to do, how much it's going to cost and what results we expect — not just in the coming year, but for each of the next three years. And these will be rolling plans, updated every year — to provide British Columbians with true accountability . . .

The plans set out exactly what we intend to do, how much it's going to cost an what results we expect.

Accountability as a government, and accountability as individual ministers.

Starting April 1st, the government is automatically withholding 20 per cent of cabinet members' ministerial salaries.

Starting April 1st, the government is automatically withholding 20 per cent of cabinet members' ministerial salaries. Ministers will be able to earn half of that back by meeting their ministry spending targets. The other 10 per cent will be paid out only if we meet or beat our bottom-line target.

Each of us is personally committed to making this work. And, Mr. Speaker, I'm proud of the work that ministers and government staff have done to bring ministries in on budget for the year just ending.

Eight months ago, we were facing over $500 million in spending pressures in ministries. Those were areas where we were likely to go over budget — but we managed them down to the point where almost every ministry is on budget for the year just ending.

I'm confident we will continue to meet our spending targets in the years ahead — and that's half the battle in overcoming the deficit.

Revitalizing the Economy

The other essential step is, of course, to revitalize the economy.

Mr. Speaker, for years now, B.C. has lagged behind the rest of the country in economic growth.

And let's be clear. Economic growth is not some figure. It's what gives people jobs. It's what gives people opportunities. It's what makes young people want to stay here or come here to build their lives.

We have a plan to revitalize the economy, to get that positive growth happening again, to make this a province where everyone has choices and opportunities.

We have a plan to revitalize the economy, to get that positive growth happening again, to make this a province where everyone has choices and opportunities . . .

And we started putting our plan into action on day one, with tax cuts that put money back in British Columbians' pockets . . .

And Mr. Speaker, even the skeptics agree that, over time, tax cuts stimulate investment and strengthen economic growth. That's why they're such an important part of our three-year plan.

After cutting personal taxes, we lowered taxes on businesses, to make B.C. competitive again.

We removed job-killing taxes on investment, to send a message around the world that B.C. is open for business.

We started cutting red tape and eliminating subsidies, to let the market work, and to give businesses the certainty and the flexibility they need to create jobs and increase wealth.

And today, I am announcing an additional tax change that's going to foster growth in British Columbia's small-business sector.

Small business is the store on the corner, the restaurant down the road, or the office up on Main Street — the lifeblood of communities.

Small business drives our economy: when it succeeds, B.C. succeeds.

Therefore, as part of our plan to revitalize the economy, we're introducing a tax change to encourage small-business growth and to bring us into line with the rest of the western provinces.

Effective April 1, we're increasing the threshold for small businesses' income tax rate to $300,000 from $200,000.

Small businesses are the province's biggest employers, and this change will save them money they can reinvest in new jobs and new growth.

We will continue reviewing the tax system regularly, to make sure the province stays competitive with the rest of the country.

We will also take important steps to make sure the province gets the most from our traditional resources — as well as our emerging industries.

As part of our plan to revitalize the economy, we're introducing a tax change to encourage small-business growth and to bring us into line with the rest of the western provinces.

Effective April 1, we're increasing the threshold for small businesses' income tax rate to $300,000 from $200,000.

We will revitalize the forest industry. We will move towards a market-based stumpage system, introduce tenure reforms to help the sector compete, provide greater certainty with a working forest base, and streamline the Forest Practices Code.

For example, we will revitalize the forest industry. We will move towards a market-based stumpage system, introduce tenure reforms to help the sector compete, provide greater certainty with a working forest base, and streamline the Forest Practices Code.

We will also accelerate the development of the energy sector — one of the emerging stars of our economy.

We're putting in place a new royalty and regulatory structure to encourage the development of coalbed methane extraction, infrastructure projects to improve land access, and a single-window process to speed up and streamline the energy permitting process . . . furthering the industry's potential to generate billions of dollars a year in new investment.

The high-tech sector is also poised for further growth — as high as 10 per cent a year. And the government will continue to work with the Premier's Technology Council to make B.C. one of the world's leading high-tech centres.

We will also continue to maintain the competitive tax environment that's played a significant role in the growth and development of B.C.'s film and television sector. And we will consider measures in the next several months to encourage further growth in new media.

In addition, we're changing the way we develop public infrastructure — opening up new opportunities for the private sector, and opening up government to creative new ideas for providing public services at a cost we can afford.

In addition, we're changing the way we develop public infrastructure — opening up new opportunities for the private sector, and opening up government to creative new ideas for providing public services at a cost we can afford.

And we're committed to working with the tourism sector to double its contribution to the economy. Government will help with a series of initiatives, including a move to more flexible working arrangements, and streamlined decision-making for access to Crown land.

We will also realize an economic benefit from marketing our attributes to people around the world — through our promotion of the 2010 Olympic bid, and a new marketing strategy to raise the province's profile and celebrate our strengths.

We intend to let people know that British Columbia is a desirable destination, a great place to invest, and a source of world-class products and ideas.

Mr. Speaker, these are long-term investments, but we know they will pay real dividends. And British Columbians should be encouraged by the positive economic news that's already out there:

Lower taxes and record-low interest rates are generating consumer confidence, and we're seeing good results for retail sales, housing sales and housing starts.

Lower taxes and record-low interest rates are generating consumer confidence.

We're also seeing early signs that tourism is strengthening. And, even though prices are low, our energy output is strong and growing — especially in the northeast.

On top of that, last month, the province created 27,000 jobs — one-third of all the new jobs in the country. And overall, experts agree that B.C.'s economy will bounce back by 2003, along with the broader global economy.

Last month, the province created 27,000 jobs — one-third of all the new jobs in the country.

We're well-positioned to take advantage of the turnaround.

We have a competitive tax structure. We're building a positive business environment.

We have a competitive tax structure. We're building a positive business environment.

And we're taking steps to get more value from our resources.

All these steps will help to revitalize our economy and support the quality services that British Columbians count on.

Putting Patients First

Mr. Speaker, for us, there is no greater priority than saving and renewing health care.

And it stands alone in terms of public services.

It's not just another government program. It's our health, our families' health, and one of the main reasons why B.C. and Canada consistently rank as world leaders in quality of life.

I know that every member of this government is passionate about the government's vision for health care.

We see a system that delivers high-quality services that meet all patients' needs, where they live and when they need them. And we are absolutely committed to putting patients first.

We see a system that delivers high-quality services that meet all patients' needs, where they live and when they need them. And we are absolutely committed to putting patients first.

That means we have to face reality, Mr. Speaker. And here are some facts about health care:

In this province, costs have more than tripled — from $3 billion in 1985.

When Medicare was started 40 years ago, the federal government covered 50 per cent of the funding. Today, the federal government contributes just 14 cents of every health-care dollar.

In 2001-2002, our health-care budget increased by 13 per cent. This was before we fully addressed costs associated with paying the settlements for nurses and other health-care workers.

I am announcing today a substantial increase in the budget for the Ministry of Health Services. The budget for 2002-2003 is $10.2 billion — up from $9.5 billion one year ago.

We had intended to hold the line on health-care spending, but wage pressures made that, frankly, impossible.

Increased compensation costs for recruiting and retaining high-demand doctors, nurses and other health professionals have forced us to increase health-care spending by almost $700 million.

The extra cost includes funding the 21 per cent increase in nurses' salaries, and the first part of the arbitration award that increases doctors' fees by $400 million. It also addresses the higher wages awarded this year to paramedicals.

Some have tried to create the myth that health-care budgets are being cut. Nothing could be further from the truth.

Mr. Speaker, this year alone the budget for the Ministry of Health Services will increase from $9.5 billion to $10.2 billion. That's a 7.3 per cent increase at a time when our economy is growing by less than one per cent.

So no one should confuse the changes we're making — changes designed to get more out of every health dollar, and to increase the quality of patient care.

No one should mistake these changes for funding cuts.

The truth is that the health-care budget is increasing, and costs are rising.

These are costs we can't avoid. Health care is not free.

Health care is not free.

It's the most expensive public service any province delivers, and the money to pay for it has to come from somewhere.

That's why we made the difficult decision to increase MSP premiums — as I announced at open cabinet two weeks ago. MSP premiums will increase by 50 per cent on May 1st. But we are protecting lower-income British Columbians from the increase: 230,000 people will actually see their MSP premiums go down, not up.

That's why we made the difficult decision to increase MSP premiums.

As well, I'm announcing another difficult decision today.

To fund the doctors' pay increases, the government is raising the provincial sales tax rate to 7.5 per cent from seven per cent, effective midnight tonight. To protect lower-income earners — as we did with the MSP premium increase — we are raising the refundable B.C. sales tax credit from $50 to $75 a year.

To fund the doctors' pay increases, the government is raising the provincial sales tax rate to 7.5 per cent from seven per cent. To protect lower-income earners — as we did with the MSP premium increase — we are raising the refundable B.C. sales tax credit from $50 to $75 a year.

The sales-tax increase will raise about $250 million this year. This will go to pay higher health-care wages.

So will the revenue from an increased tobacco tax, which I am also announcing today. Effective midnight tonight, the tax on cigarettes will increase by $8 a carton — and the tax on fine-cut tobacco will increase by an equivalent amount. This measure will raise about $150 million.

Not coincidentally, it will also help to reduce health-care costs in the long run, by giving a certain number of smokers the added incentive they need to quit. Which is why we chose this particular area for an increase.

Raising taxes is pretty much the last thing this government wanted, or ever intended, to do. At the same time, we've always said that we would make the tough decisions when we had to.

Mr. Speaker, raising taxes is pretty much the last thing this government wanted, or ever intended, to do. At the same time, we've always said that we would make the tough decisions when we had to — and, Mr. Speaker, this was a very tough decision.

After the arbitrator handed down his ruling, we had four choices:

Number one: We could say no. At a time when the health-care system is already stretched to the limit, we could simply refuse to pay the higher fees, and worsen the existing doctor shortage.

Number two: We could borrow another $400 million, and undermine the hard work — the necessary work — that government is doing to get our fiscal house in order, and shunt the cost onto future generations.

Number three: We could make deeper spending cuts. We could cut every ministry except health and education by an additional five per cent.

And option number four was a focused tax increase. That is the option we chose.

Mr. Speaker, British Columbians want a health-care system they can count on, with highly trained, highly skilled professionals. They want to be sure that B.C. can attract and retain nurses, doctors and other skilled care providers — and all these things come at a cost.

Now that all the wages are settled for the next few years, we can get to work on rebuilding the health-care system and getting costs under control.

But now that all the wages are settled for the next few years, we can get to work on rebuilding the health-care system and getting costs under control.

That's why the changes we made in labour legislation — to give us flexibility in how we manage the system — were so very essential, and couldn't be avoided. Those changes will mean the government will not have to spend hundreds of millions of dollars.

With the streamlined governance structure we introduced last year, we can also begin to reduce administrative costs, realize some economies of scale, and get the maximum value out of every health-care dollar.

To further support effective management, we're making sure health authorities get their budgets on time.

In 2000, they weren't given their budget allocations until three-quarters of the way through the fiscal year. And that's a clear example of the kind of mismanagement that British Columbians simply won't stand for any more.

We are committed to good government, Mr. Speaker. And, when it comes to health care, that includes more than just funding the system that supports people when they're sick or injured.

It also includes protecting public health — and that is why we've raised the budget for the program that monitors and protects the quality of drinking water, all across British Columbia.

This program was cut dramatically in 1996.

In the coming year, we will invest a total of $3 million to increase water monitoring, protecting British Columbians' drinking water.

We think people should have confidence that the water from their taps is safe. And if it's not safe, we're committed to making sure they know about it as soon as possible, so they can take precautions.

This is a fundamental part of protecting public health. And it's a good example of the targeted investments we're making in important public services.

With the streamlined governance structure we introduced last year, we can also begin to reduce administrative costs, realize some economies of scale, and get the maximum value out of every health-care dollar.

Protecting public health is why we've raised the budget for the program that monitors and protects the quality of drinking water.

In the coming year, we will invest a total of $3 million to increase water monitoring, protecting British Columbians' drinking water.

A higher budget, more efficient management, and a continued commitment to recruiting and retaining the highly skilled professionals that make the system work . . . that's our formula for a better, stronger health-care system — a system that always puts patients first.

Mr. Speaker, a higher budget, more efficient management, and a continued commitment to recruiting and retaining the highly skilled professionals that make the system work . . . that's our formula for a better, stronger health-care system — a system that always puts patients first.

Today, we are also delivering on our promise to put students first in our education system.

Putting Students First

Mr. Speaker, student achievement is what education is all about. The system that we talk about — the bricks and mortar, the books, the teachers, the school boards and administrators — they're all there for a single reason: to help children learn.

Because learning gives them choices. It gives them opportunities and self-determination.

It opens up a whole new world of possibilities — and that's the future we see for young people in British Columbia.

As for the system — we see it as a promise to our children, a promise that we will give them nothing less than the tools they need to fulfill their dreams.

That's why we're so committed to standing by our promise to build a top-notch education system — and our promise not to cut education funding.

I am confirming today that the budget for the Ministry of Education for 2002-2003 is $4.86 billion.

Effective July 1, the government will refund the full amount of the B.C. sales tax on school supplies purchased with money raised by parent advisory councils.

Today, we are delivering on another key promise, as well. Effective July 1, the government will refund the full amount of the B.C. sales tax on school supplies purchased with money raised by parent advisory councils.

For the Ministry of Advanced Education, the budget is $1.9 billion. And, as the government announced last week, we're lifting the tuition freeze to give colleges and universities access to the resources they need to meet increasing demands, and to deliver top-quality education to students.

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Government is contributing more to higher education, as well.

Starting this year, we will establish our $45 million Leading Edge Endowment Fund, which will, in partnership with the private sector, create 20 permanent research chairs at B.C. universities. These chairs — in the fields of medical, social, environmental and technological research — will help attract the faculty that B.C. needs to compete and lead in the knowledge-based economy.

As the government outlined in last week's throne speech, we will also make a substantial investment in a joint project with the universities of B.C., Victoria and Northern British Columbia to increase the number of medical school graduates.

These funding commitments support quality education and underline our commitment to putting students first. So do the other changes we're making in the system:

We're providing more choice and flexibility — for students of all ages, in all parts of the system.

We're putting decisions about K-to-12 education back into local hands, so the people who are closest to students — parents, teachers, principals and school trustees — can make decisions based on children's needs, instead of on arbitrary policies or contract language.

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All across the system, we're focusing on setting goals and achieving measurable results for education.

We're holding school boards, colleges and universities accountable for improving student achievement. And we, as a government, will also be accountable.

We've set clear targets for what we plan to achieve.

For example, we will double the number of graduates in computer science, electrical engineering and computer engineering in the next five years to support growth of the high-tech sector.

We will increase the number of student spaces for nurses and residential care aides by more than 1,400 in the next three years.

In the K-to-12 system, we're committed to increasing high-school graduation rates.

In the K-to-12 system, we're committed to increasing high-school graduation rates, consistent with the specific goals that schools and school boards are setting province-wide. And this one change — this change alone — is going to have a tremendous effect on this province's future.

It's just one small example of government's plan for positive change. And, Mr. Speaker, let me give the house some idea of how much impact one small change can have:

Today in British Columbia, 80 per cent of the people on social assistance did not graduate from high school. Ninety per cent of the people in correctional institutions did not graduate from high school.

Imagine what will happen when we're able to get our grad rates up from the current 75 per cent to 80 or 90 or even 100 per cent.

We will see a different society. We will see a different economy.

We will see a different society. We will see a different economy.

We will have more people working and fulfilling their dreams.

We will have more people working and fulfilling their dreams.

Children and their parents will be healthier, and communities will be stronger.

Children and their parents will be healthier, and communities will be stronger.

It won't happen overnight. Change takes time. But this is a good example — and Mr. Speaker, let me repeat, it's only one, small example — of how we're making positive changes in our province.

It demonstrates that the vision we have for a proud and prosperous future *can* be achieved. It *will* be achieved . . .

And the province will be well on its way three years from now — when the budget is balanced, the deficit is gone, and government is affordable, efficient and sustainable.

Conclusion

Mr. Speaker, we use the word sustainable a lot. And what it really means is that we have a solid footing — a sound, stable, reliable foundation to support public services — not just today, but for years, and for generations to come.

Unfortunately, the previous government didn't seem to grasp that. In fact, one of their members used to tell a story about it, during his time as the minister of health.

He had some personal experience with the subject. Because, years ago, he built a house — and, somehow, forgot to lay a foundation.

I mention it now because it is an apt analogy for how the previous government ran this province.

It was always in a hurry to build; to spend more; to make its programs bigger and its services broader. But it never did the hard work needed to ensure there was a solid and sustainable economic footing for all that spending.

That's what we're doing now, Mr. Speaker. It's hard work. It's challenging work and — just like a major household renovation — it will create some discomfort along the way.

Some people will be upset. Some will be angry. Some will say the government is making the wrong decisions.

But Mr. Speaker, the work we're doing can no longer be avoided. It has to be done, because this province can only truly prosper with a solid economic and fiscal foundation.

The work we're doing can no longer be avoided. It has to be done, because this province can only truly prosper with a solid economic and fiscal foundation.

Every budget is based on choices and priorities. And we've been very clear about where our priorities lie. We're committed to:

- restoring sound fiscal management;
- revitalizing the economy; and
- putting patients and students first . . .

And we have a sound, achievable plan to meet these goals in time.

The province faces huge challenges and we need to face up to them, head-on.

Reckless spending and high taxes turned us into a have-not province. History proved that that approach was wrong, Mr. Speaker — and history will prove that our approach is right.

Reckless spending and high taxes turned us into a have-not province. History proved that that approach was wrong, Mr. Speaker — and history will prove that our approach is right.

It's already worked in every other province — even in places with far fewer resources to work with.

They've balanced their budgets, lowered their taxes, got their regulatory systems in line and created inviting business climates where people could come and invest, and create jobs and opportunities for their people.

As they did, their economies grew, they were able to serve their citizens, and they found they had some money left over to pay down their debts.

They recovered, Mr. Speaker. And B.C. will recover, too.

We have great advantages:

- an educated workforce;
- natural resources that are second-to-none;
- a strategic location;
- excellent access to markets;
- a competitive tax environment;
- a quickly-improving business climate . . .

And word is getting out: B.C. is back.

Investors know we're going through a tough time right now. But they also know we have a plan — and everyone the Premier and I talked to at the World Economic Forum, earlier this month, said they understood, and they were very encouraged by what we're doing.

They know, and we know, that the year ahead will be challenging. But, after that, we'll turn the corner, as long as we stick to our plan.

We will emerge from this difficult time able to compete. We will once again have opportunities; we will once again control our own destiny.

We will leave behind the indignity and stigma of have-not status, and build a new future — a future that delivers on the vision I've described today.

This will be a province where every young person has the choices, and the opportunities they need to build a successful life;

Where patients have access to the health-care they need;

Where vital public services are supportive, and sustainable;

Where we get the maximum benefit from our natural resources;

Where businesses are thriving, creating new jobs, and giving new hope to all of our communities; and

Where British Columbians have confidence and pride in a province that is the best place to live, to work, to do business and to raise our families.

Mr. Speaker, our vision for this province is clear. And this budget will set the course to make it reality.

This budget is about good government, Mr. Speaker.

It's about sound fiscal management. It's about building a strong, prosperous economy.

It's about hope. It's about opportunity.

And, Mr. Speaker, after 10 years of decline, it's about time.

Let's get to work.

This budget is about good government.

It's about sound fiscal management. It's about building a strong, prosperous economy.

It's about hope. It's about opportunity.

Budget and Fiscal Plan 2002/03 to 2004/05

February 19, 2002

BRITISH COLUMBIA

Ministry of Finance

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TABLE OF CONTENTS

Attestation by the Secretary to Treasury Board

Budget and Fiscal Plan — 2002/03 to 2004/05 2
- Summary 2
- Fiscal Plan 3
- Building a Strong and Vibrant Economy 4
- Eliminating the Deficit 6
- Economic Outlook 7
- Revenues 8
- Crown Corporations 8
- Revenue Measures 9
- Spending Plan 10
- Managing Risks to the Fiscal Plan 12
- Debt 12

Chapter 1: Three-Year Fiscal Plan 13
- 1.1 Overview 13
- 1.2 Building a Strong and Vibrant Economy 16
- 1.3 Eliminating the Deficit 28
- 1.4 CRF Revenue 30
- 1.5 Revenue Measures 33
- 1.6 CRF Spending 37
- 1.7 Crown Corporation and Agency Service Plan Highlights 47
- 1.8 Capital Spending 51
- 1.9 Provincial Debt 55
- 1.10 Fiscal Plan Risks 58
- 1.11 Eliminating the Deficit — Summary 63
- Tables:
  - 1.1 Summary Accounts Operating Results 13
  - 1.2 Revenue by Source 32
  - 1.3 Summary of Revenue Measures 35
  - 1.4 Ministry 3-Year Spending Plans, Changes Since January 17, 2002 38
  - 1.5 Deficit Before Adjustments 39
  - 1.6 Expenditure by Ministry 40
  - 1.7 Crown Corporations and Agencies 49
  - 1.8 Capital Expenditures 52
  - 1.9 Capital Projects Greater than $50 Million 54
  - 1.10 Provincial Debt Summary 56
  - 1.11 Provincial Financing 57
  - 1.12 Summary of Yearly Budget Changes — Three-year Fiscal Plan 64
- Topic Boxes:
  - 2002/03 Health Compensation Increases 65
  - Federal Funding of Health Care in British Columbia 66
  - Government Restructuring 67
  - New Approach to Capital Planning 68
  - Compliance with Generally Accepted Accounting Principles 70
  - Ministerial Accountability for Fiscal Targets 72

Chapter 2: British Columbia Economic Review and Outlook 73
- Overview 73
- The Outlook for the External Environment 74
- Financial Markets 78
- Commodity Markets 79
- British Columbia Economic Forecast 82

Risks to the Forecast 87
Scenarios Around the Budget Forecast 88
Tables:
2.1 British Columbia Economic Outlook 73
2.2 British Columbia Economic Outlook Scenarios 74
2.3 Key Assumptions 77
2.4 Key Indicators 82
2.5 Key Indicators and Assumptions — Slow Recovery Scenario 90
2.6 Key Indicators and Assumptions — Rebound and Recovery Scenario 91
2.7 British Columbia Economic Outlook 92
2.8.1 Gross Domestic Product — British Columbia and Canada 94
2.8.2 Components of British Columbia Real GDP at Market Prices 95
2.8.3 Components of Nominal Income and Expenditure 96
2.8.4 Labour Market Indicators 97
2.8.5 Major Economic Assumptions 98
2.9 Current Economic Statistics 99
Topic Box:
The Economic Forecast Council, 2002 100

Chapter 3: Revised Financial Forecast (Third *Quarterly Report*) 105
Revenue 107
Expenditure 107
Crown Corporations and Agencies 109
Capital Spending and Provincial Debt 109
Tables:
3.1 Revised Forecast 105
3.2 Developments Since the Second *Quarterly Report* — Summary Accounts 106
3.3 Pressures Allocated to the Contingencies Vote 108
3.4 Capital Expenditures and Provincial Debt — Revised Forecast 109
3.5 Developments Since the Second *Quarterly Report* — Capital and Debt 111
3.6 Summary Accounts — Revised Forecast 112
3.7 Consolidated Revenue Fund Revenue by Source 113
3.8 Consolidated Revenue Fund Expenditure by Ministry 114
3.9 Crown Corporation and Agency Results 115
3.10 Government, Crown Corporations and Agencies — Capital Expenditures 116
3.11 Capital Expenditure Projects Greater than $50 Million 117
3.12 Provincial Debt Outstanding 118
3.13 Summary Accounts Balance Sheet 119

Appendices 120
A1 Revenue Measures 120
A2 Tax Expenditures 2001/02 132
A3 Interprovincial Comparisons of Tax Rates — 2002 137
A4 Comparison of Provincial and Federal Taxes by Province — 2002 138
A5 Interprovincial Comparisons of Provincial Personal Income Taxes Payable — 2002 140
A6 Summary Accounts Operating Results 141
A7 Revenue by Source 142
A8 Expense by Function 146
A9 Consolidated Revenue Fund Revenue Assumptions and Sensitivities 147
A10 Consolidated Revenue Fund Expenditure Assumptions and Sensitivities 150
A11 Crown Corporation Assumptions and Sensitivities 157
A12 Summary Accounts Staff Utilization 159
A13 Summary Accounts Balance Sheet 160
A13a Changes in Summary Accounts Financial Position 161
A14 Provincial Debt Summary 162
A15 Key Debt Indicators 163

BRITISH COLUMBIA

February 19, 2002

As required by Section 7(d) of the *Budget Transparency and Accountability Act* (BTAA), I am confirming that the *Budget and Fiscal Plan* contains the following elements:

— The fiscal and economic forecasts for 2002/03, which are detailed in Chapters 1 and 2.

— All material economic, demographic, taxation, accounting policy and other assumptions underlying the 2002/03 economic, revenue, expenditure, deficit and debt forecasts are also disclosed, except those that could affect the outcome of negotiations in which the province is involved or the province's commercial interests. We have not disclosed the specific assumptions related to the outcome of the U.S. softwood lumber dispute.

— Although not required by the BTAA, key assumptions and sensitivities for the subsequent two years of the fiscal plan are also disclosed, as well as the main risks to the plan known at this time.

— The report on the current advice of the Minister's Economic Forecast Council on economic growth, including the range of forecasts for 2002 and 2003. This is found at the end of Chapter 2.

This budget represents a significant change in the nature of decision-making and planning within the British Columbia government. For the first time, three-year forecasts are set out for each individual ministry, major Crown corporation, major revenue sources, capital spending and debt. The ministry spending plans have been developed after extensive review by Treasury Board, the Core Services Review process and Government Caucus Committees. The Crown corporation forecasts have been approved by the respective Boards of Directors. In addition, the budget and three-year fiscal plan is accompanied by service plans for Ministries and Crown corporations, detailing what is to be accomplished using the financial resources available to them. The *Budget and Fiscal Plan* is also consistent with the government's strategic plan.

As required under section 7(e) of the BTAA, the adjustment to the most likely forecast of the 2002/03 deficit is also disclosed (see page 63).

Government will continually review its spending and revenues in order to ensure the balanced budget target is achieved. As significant new developments occur, their effect on the fiscal plan will be disclosed in the *Quarterly Reports*, or as required by legislation.

I would like to thank staff in all government ministries, including the Ministry of Finance, and Crown corporations for their work in development of their plans and preparation of these multi-year economic and financial forecasts.

PAUL TAYLOR
Deputy Minister and
Secretary to Treasury Board

Ministry of Finance

Treasury Board

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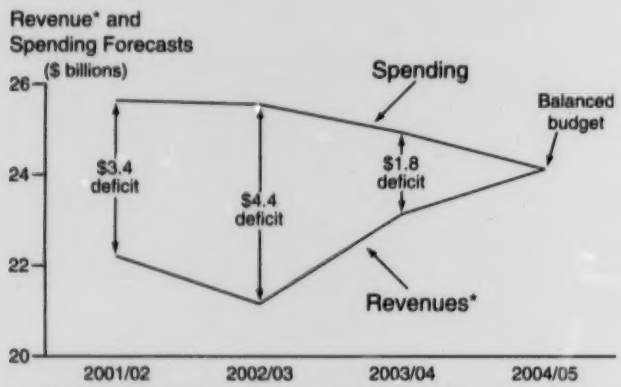
Summary

- A $4.4 billion deficit is forecast in 2002/03. The deficit is expected to decline to $1.8 billion in 2003/04, and a balanced budget is projected in 2004/05.



*Includes CRF revenues, Crown corporations, and forecast allowance
Excludes one-time pension adjustment

- The fiscal plan is based on the most likely economic and revenue forecasts, with economic and revenue growth returning to more normal rates after weak economic performance in 2001 and 2002. The plan incorporates a revised forecast for 2001/02, updates to the three-year ministry spending plans announced on January 17, 2002 and Crown corporation financial forecasts.

- The $4.4 billion deficit for 2002/03 results from a $815-million decline in revenues, a $81-million decrease in spending, a $442-million improvement in Crown corporation contributions, and a $750-million forecast allowance as a cushion against potential risks to the budget.

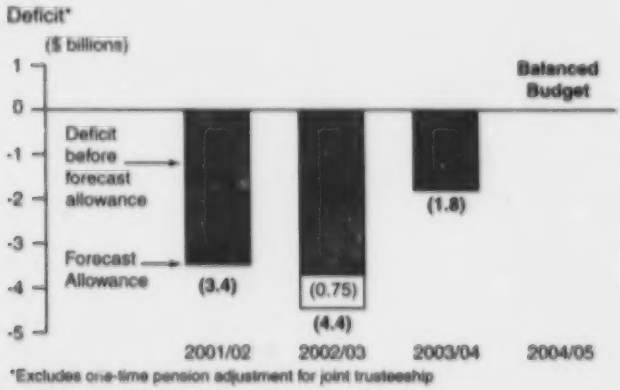
- No forecast allowances are included in 2003/04 or 2004/05 at this time. However, to help the government meets its financial targets, appropriate allowances will be determined when budgets for each of those years are presented.

- After 2002/03, revenues are forecast to grow an average of 5.1 per cent annually, in line with the 4.6-per-cent average growth in nominal GDP. Spending will decline by an average of 2.8 per cent annually. The resulting $2.3 billion revenue increase and $1.4 billion spending decrease, combine to reduce the deficit to zero by 2004/05.

- The revised forecast deficit for 2001/02 is $3.4 billion excluding the one-time pension adjustment, and includes a $70-million forecast allowance. The deficit forecast is consistent with the second *Quarterly Report* released on November 22, 2001.

Fiscal Plan

- The fiscal plan is presented on a three-year basis. Forecasts and plans for revenues, ministry spending and Crown corporations are provided for each of the three fiscal years 2002/03, 2003/04 and 2004/05. Accompanying service plans for ministries and Crown corporations detail expected changes, accomplishments, and performance targets. The government is also releasing a three-year strategic plan along with the budget and service plans.
- After the end of each fiscal year, results will be reported in the *Public Accounts*, a report on government strategic plan results, and ministry and Crown corporation service plan reports. Every year, these plans will be reviewed and updated to reflect progress made and changing economic and financial circumstances, and another year will be added. The *Quarterly Reports* will include regular updates on any significant changes and policy developments occurring within each year.
- Starting April 1, 2002, Cabinet ministers are collectively and individually accountable for spending control and will incur salary penalties for failure to stay within budget or meet specified performance targets. All ministers are collectively responsible for meeting the overall deficit target of $4.4 billion. As for individual responsibility, some ministers must focus on not overspending their ministry 2002/03 authorizations, while the Minister of Provincial Revenue and Ministers of State must focus on achieving specific performance results.



- The three-year fiscal plan is based on two main strategic elements:
  - — building a strong and vibrant economy; and
  - — eliminating the deficit.

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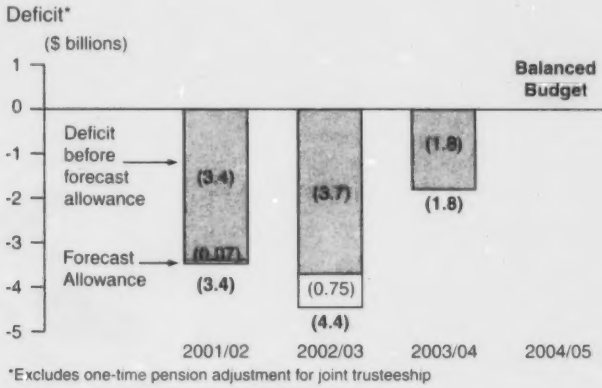

*Excludes one-time pension adjustment for joint trusteeship

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  - — building a strong and vibrant economy; and
  - — eliminating the deficit.

Building a Strong and Vibrant Economy

Government's overall strategy for restoring confidence in the economy and creating a stable, growing revenue base has four key elements.

1. A stable and competitive policy framework:

- The personal income tax cuts announced on June 6, 2001, business tax cuts, and other measures announced with the July 30 *Economic and Fiscal Update*, are major steps towards the goal of restoring economic competitiveness.
- The government intends to review the tax system on a regular basis to ensure it remains competitive with other jurisdictions.
- This budget includes several tax measures to further improve the competitive environment, including expanding the definition of parts that are exempt from provincial sales tax and raising the small business corporate income tax threshold.
- The private sector will play a greater role in providing public infrastructure and services through the use of public-private sector partnerships.
- The *Employment Standards Act*, the *Workers Compensation Act* and the Labour Code will be updated to improve flexibility and to ensure they are fair to employers and employees alike.
- Government is also taking steps to reduce the regulatory burden and level the playing field for investment by eliminating business subsidies.

2. Ambitious but achievable sector strategies:

- The government is taking steps to:
  - — revitalize BC's forest industry;
  - — maximize development opportunities in BC's energy sector;
  - — work with industry to double tourism's contribution to the province's economy, including aggressive support for British Columbia's bid to host the 2010 Olympic Winter Games;
  - — encourage mineral exploration and development;
  - — ensure that British Columbia becomes a global leader in high-tech;
  - — encourage other sectors including agriculture and aquaculture as well as film and television production; and
  - — encourage the vital small business sector by removing barriers to growth and exploring opportunities for expansion.

3. Sustainable environmental policies:

- The government places a high priority on a thriving private sector that also respects British Columbians' strong environmental values.
- To ensure the benefits enjoyed today are available to future generations, the government will respect the following principles:
  - — setting appropriate environmental standards and creating incentives to meeting those standards;
  - — managing British Columbia's natural resources on a sustainable basis;
  - — minimizing land-use conflicts through co-ordinated decision-making;
  - — basing decisions on the best available scientific knowledge; and
  - — working in partnership with all levels of government to harmonize standards and establish clear accountability for results.

4. Educational excellence:

- BC's economic prosperity will depend on a high quality, relevant education system that equips students with the skills and knowledge they need. Key initiatives to achieve this goal include:
  - — increasing the number of high-tech graduates, particularly in computer science and electrical and computer engineering;
  - — expanding industry training in areas such as general trades training and new apprenticeships;
  - — forging closer links between education and the economy through professional interchanges and leading edge research chairs; and
  - — creating more choice for students through enhanced on-line learning and expanded transferability of credits between institutions.

Eliminating the Deficit

- On January 17, 2002, the government announced three-year spending plans that reduced funding for ministries, except Health Services, Education and Advanced Education, by a total of 25 per cent or $1.9 billion over three years.
- Within the fiscal framework provided by current economic, revenue and Crown corporation forecasts, the spending reductions are forecast to contribute to achieving a balanced budget in 2004/05. Compared to the July 30 *Economic and Fiscal Update*, total spending in 2004/05 will fall by $974 million.
- In 2002/03, the $4.4-billion deficit forecast takes into account:
  - an underlying structural deficit;
  - weak revenues reflecting the economic slowdown and lower commodity prices;
  - the ongoing investment in personal and business tax cuts announced last year;
  - one-time costs associated with the restructuring of government;
  - the first phase of the three-year spending cuts; and
  - a $750-million forecast allowance to protect against economic risks and resulting revenue shortfalls.
- The government is also faced in 2002/03 with almost $800 million in compensation costs associated with recruiting and retaining high-demand health care workers and professionals, including doctors. To offset these additional health care costs, the government is raising Medical Service Plan premiums, increasing the sales tax rate by one-half a percentage point, and increasing taxes on tobacco.
- The revenues, expenditures and Crown corporation contributions for each year of the three-year fiscal plan are outlined below:

Three-year Fiscal Plan	Revised Forecast[1] 2001/02	**Budget Estimate 2002/03**	Plan 2003/04	Plan 2004/05
	($ millions)			
Consolidated revenue fund (CRF):				
Revenue	22,853	**22,038**	23,159	24,325
Expenditure	(25,637)	**(25,556)**	(24,935)	(24,128)
CRF balance	(2,784)	**(3,518)**	(1,776)	197
Total net contributions (loss) of Crown corporations and agencies	(574)	**(132)**	(24)	(97)
Subtotal	(3,358)	**(3,650)**	(1,800)	100
Expanded government entity	—	**—**	—	(100)
Forecast allowance	(70)	**(750)**	—	—
Deficit before joint trusteeship	(3,428)	**(4,400)**	(1,800)	—
Joint trusteeship (one-time adjustment)	1,464	**—**	—	—
Deficit	(1,964)	**(4,400)**	(1,800)	—

[1] Restated to be consistent with the presentation used for 2002/03.

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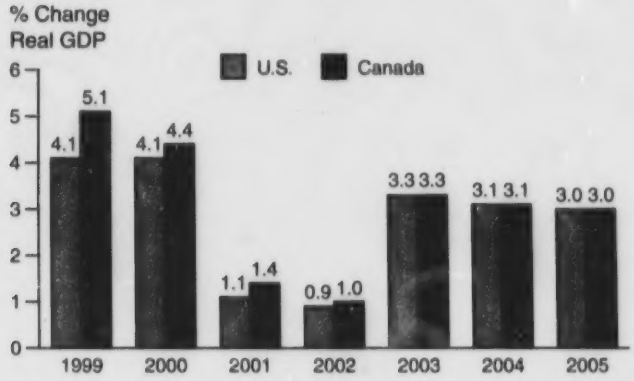
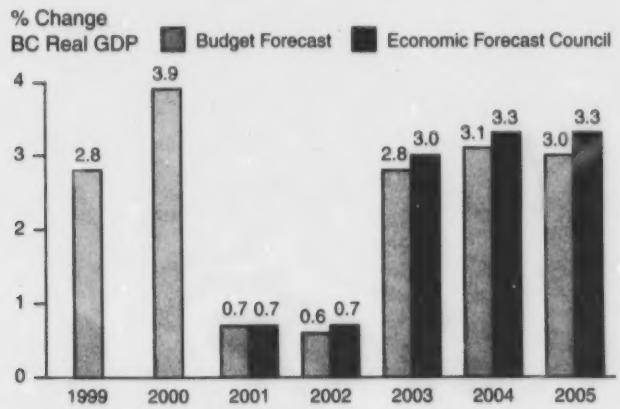
Economic Outlook

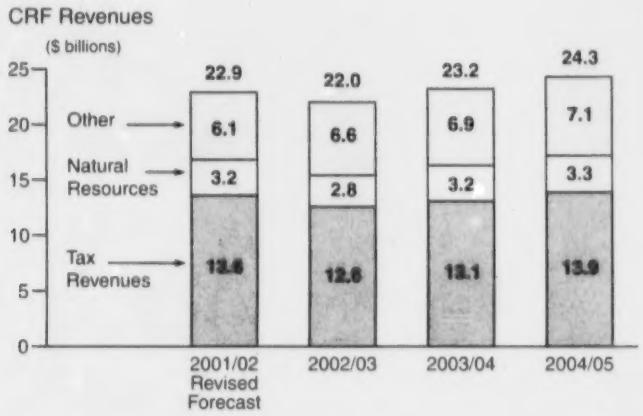


- The U.S. economy is expected to recover in 2002 and the Canadian economy is expected to follow. In 2003 and beyond, the U.S. and Canadian economies are expected to lead global economic growth.
- Based on these assumptions of growth in the province's major markets and other external assumptions, the British Columbia economy is forecast to grow 0.6 per cent in 2002, and then pick up to 2.8 per cent growth in 2003.
- The average forecast of the British Columbia Economic Forecast Council is slightly higher, with expected growth of 0.7 per cent in 2002 and 3.0 per cent in 2003.
- In 2004 and 2005, the British Columbia economy is forecast to grow about 3.0 per cent each year, consistent with the outlook for the province's trading partners, firmer commodity prices and stronger consumer and business sectors.
- Investment in the province is forecast to pick up by 2003 reflecting an improved business outlook as well as the medium-term impact of a more competitive tax environment.
- The main risks to the economic outlook include higher or lower-than-expected growth in the Canadian and U.S. economies, and the outcome of the softwood lumber dispute.



Revenues

- Revenues are expected to decline by $815 million in 2002/03 reflecting:
  - — the impact of tax cuts announced on June 6 and July 30, 2001, which further reduce revenues by $755 million;
  - — further tax competitiveness measures worth roughly $25 million;
  - — a decline in corporate income tax revenues reflecting the effect of weak corporate profits in 2001;
  - — various one-time income tax revenue increases occurring in 2001/02 that will not occur in 2002/03; and
  - — new revenue measures totalling $758 million to pay for health care system compensation costs. After factoring in tax competitiveness and other measures, total revenue measures in 2002/03 are reduced to $736 million.
- After declining by 3.6 per cent in 2002/03, revenues are expected to increase at an average rate of 5.1 per cent from 2002/03 to 2004/05. This reflects the global economic recovery and firming commodity prices.



Crown Corporations

- Crown corporations turned in a weaker-than-expected performance in 2001/02, mainly reflecting restructuring by BC Rail, higher costs at ICBC along with a writedown of the Surrey City Centre development, and lower-than-expected results from BC Hydro. Crown corporation finances are forecast to show a modest improvement between 2002/03 and 2004/05, mainly due to improving results for ICBC, BC Rail and BC Lotteries.
- The government is still continuing its core reviews of Crown corporations. As well, there are a number of other initiatives, such as the Energy Policy Review, that could affect the future of Crown corporation activities. As these reviews are completed, Crown corporation service plans will be updated to reflect new directions.

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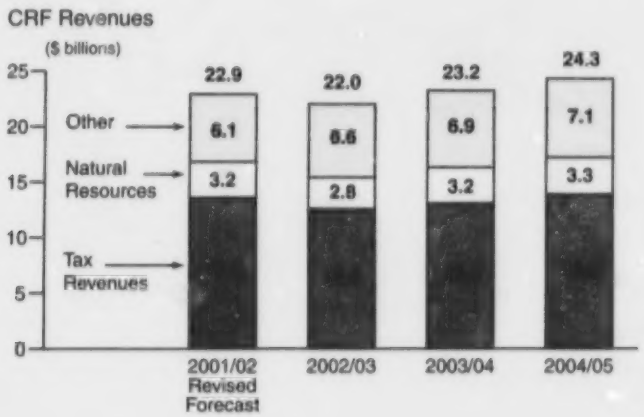

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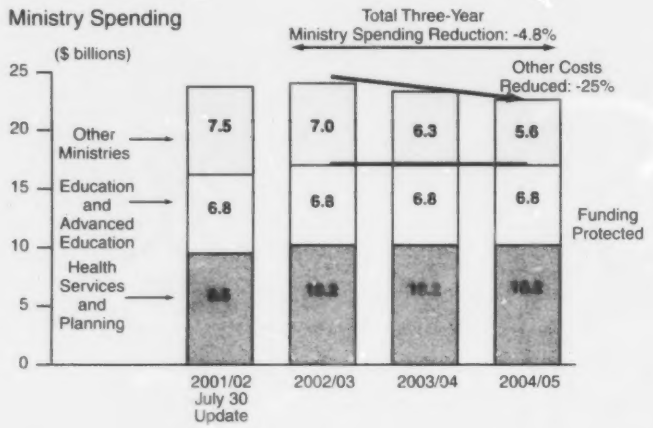
Revenue Measures

- The revenue measures included in *Budget 2002* are designed to:
  - raise additional revenue to pay for compensation increases in the health sector to ensure the retention and recruitment of high-demand health workers and professionals; and
  - continue with changes to make the tax system more competitive.
- These changes combined with recently announced flexibility measures will help to offset additional health sector compensation costs totalling almost $800 million in 2002/03:
  - a 50 per-cent increase in MSP premiums that will raise $358 million in 2002/03. Enhancements to the premium assistance program ensure that premiums will be reduced or eliminated entirely for 230,000 lower income British Columbians;
  - raising the provincial sales tax rate to 7.5 per cent from 7 per cent. This will raise $250 million in 2002/03. The refundable sales tax credit will be increased by $25 to $75 per adult to protect lower income taxpayers that currently receive the credit; and
  - increasing the tobacco tax rate by $8 per carton of 200 cigarettes, and the tax on fine-cut tobacco by an equivalent amount. After taking into account changes in smoker behaviour, this is expected to raise $150 million in 2002/03.
- To build on the process of improving British Columbia's tax competitiveness, the definition of parts that can be purchased exempt from provincial sales tax is expanded and the threshold for the small business income tax rate will be increased to $300,000 from $200,000. These measures will return roughly $25 million to small business taxpayers in 2002/03.
- *Budget 2002* also fulfills the New Era commitment to refund provincial sales tax on purchases for schools made with parent advisory council raised funds.

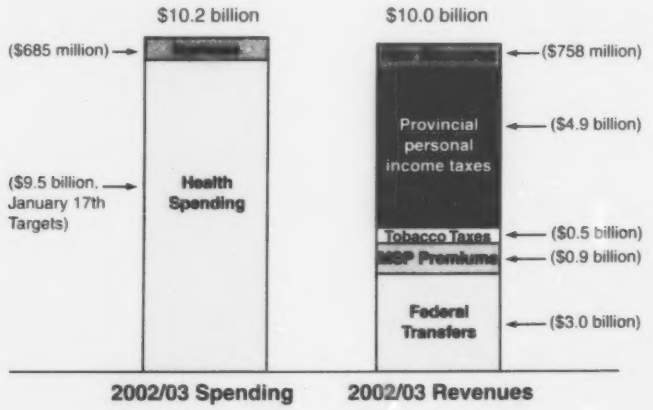
Spending Plan

A) Operating Spending

- For 2002/03, total government spending, which includes ministry spending, debt interest costs, other appropriations and an expenditure contingency reserve, is budgeted at $25.6 billion.
- Total ministry spending of $24.0 billion includes $23.3 billion as announced with government's three-year spending targets on January 17, 2002, and additional health care funding of $685 million. A further $73 million has been included in the Contingencies (All Ministries) and New Programs Vote for health compensation costs.
- While total ministry spending will fall 4.8 per cent by 2004/05, funding for health and education has been protected.
- Spending in the ministries outside the health and education areas will decline by $1.9 billion (25 per cent) over the next three years.



- When debt interest, restructuring and special offices costs are included, overall government spending will fall 3.9 per cent by 2004/05.



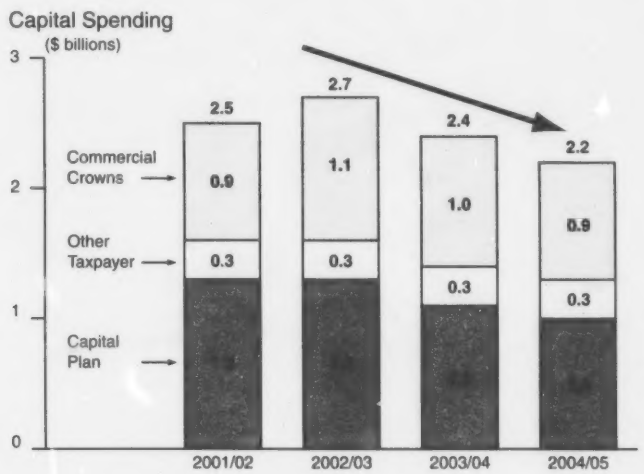
- Due to increased compensation costs associated with recruiting and retaining high-demand health care workers and professionals, $685 million has been added to the health budget for 2002/03

and $73 million to the contingencies vote. This includes the costs to fund the 21-per-cent increase in nurses' salaries, the health science workers' agreement and the February 8, 2002 interim arbitration award for doctors. Overall health spending rises from $9.5 billion in the July 30 Update to $10.2 billion today, a 7.1 per cent increase.

- The total expected revenues for this year from all federal transfers, Medical Services Plan premiums, personal income taxes and the new revenue measures — which increase Medical Service Plan premiums, social services tax and tobacco taxes by a total $758 million — still do not equal the total health budget. For 2002/03 the health budgets account for 40 per cent of CRF spending and 46 per cent of CRF revenues.

B) Capital Spending

- The government is introducing two changes in the way capital budgets are developed:
  - — capital funds are no longer allocated through a separate budgeting process. Instead, operating and capital budgeting decisions have been integrated and are driven by service plan objectives, constrained by the limits of ministry operating budgets. Ministries must ensure they have sufficient funds to cover all operating and maintenance requirements, as well as amortization and debt interest costs associated with capital facilities; and
  - — recognizing their budget limitations, ministries and agencies are being challenged to explore new ways of funding and managing capital projects. The focus will be on effective and efficient delivery of public services, while infrastructure ownership and direct control will become subordinate issues.



- Within these budget constraints, capital spending will decline after 2002/03 as fewer wholly-government funded projects are initiated, and as projects currently under construction are completed.

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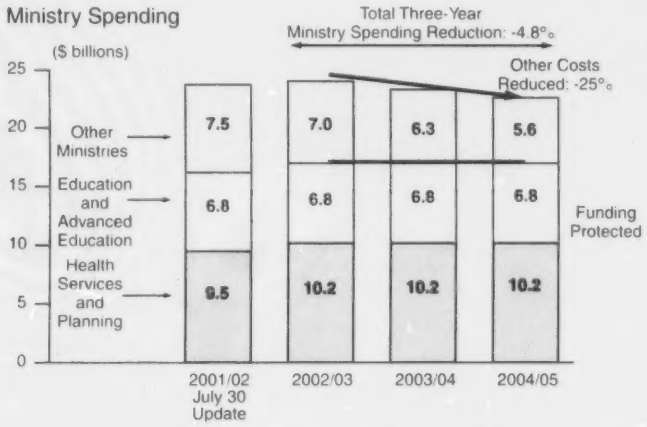

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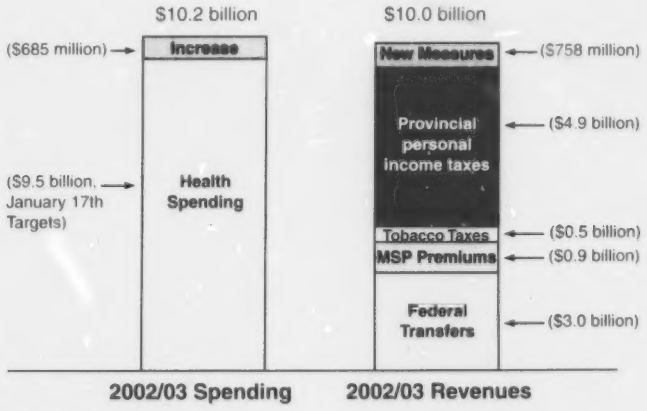

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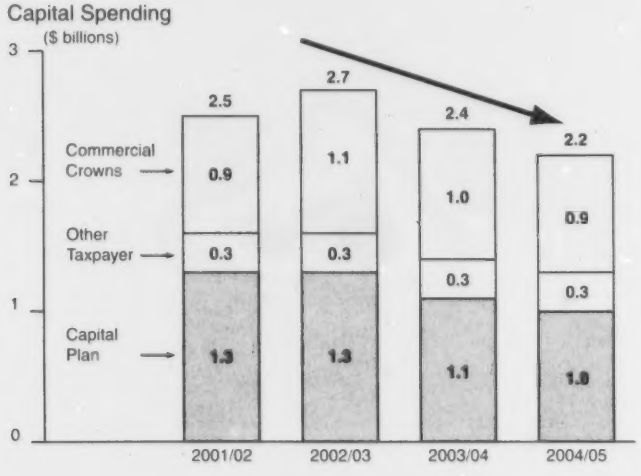
B) Capital Spending

- The government is introducing two changes in the way capital budgets are developed:
  - capital funds are no longer allocated through a separate budgeting process. Instead, operating and capital budgeting decisions have been integrated and are driven by service plan objectives, constrained by the limits of ministry operating budgets. Ministries must ensure they have sufficient funds to cover all operating and maintenance requirements, as well as amortization and debt interest costs associated with capital facilities; and
  - recognizing their budget limitations, ministries and agencies are being challenged to explore new ways of funding and managing capital projects. The focus will be on effective and efficient delivery of public services, while infrastructure ownership and direct control will become subordinate issues.



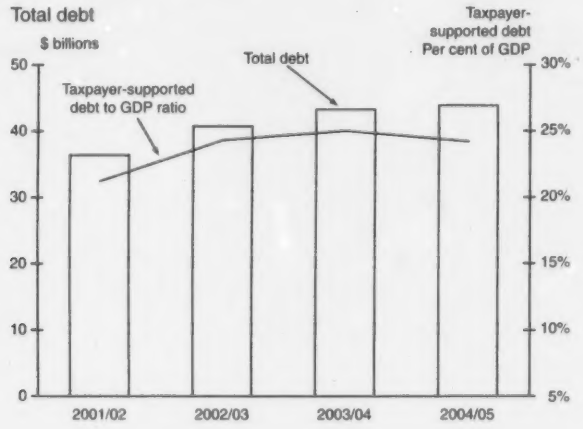
- Within these budget constraints, capital spending will decline after 2002/03 as fewer wholly-government funded projects are initiated, and as projects currently under construction are completed.

Managing Risks to the Fiscal Plan

- To manage potential risks and to help ensure the achievement of the targeted deficit, a forecast allowance of $750 million — over three per cent of revenues — is included in the 2002/03 budget. This forecast allowance increases the expected deficit from government's most likely forecast of $3.65 billion to a more conservative forecast of $4.4 billion.
- In addition, ongoing monitoring and updating of the revenue and expenditure outlook will provide the ability to take early corrective action.
- Over the next two years, government will take further action as necessary and will incorporate annual forecast allowances into the 2003/04 and 2004/05 budgets based on an evaluation of the risks faced at that time. This will provide greater assurance of achieving annual fiscal targets, and meeting the legislated requirement to balance the budget beginning in 2004/05.

Debt

- Total government debt is expected to increase from $36.4 billion to $43.9 billion over the next three years primarily reflecting cumulative deficits and capital spending. However as the deficit is reduced to zero, the rate of debt increase will slow, and the taxpayer-supported debt-to-GDP ratio is forecast to start to decline in 2004/05.



- The increase in total debt underscores the importance of eliminating the deficit as quickly as possible, to avoid burdening future generations of British Columbians with rapidly escalating debt interest costs.
- The eventual decline in the taxpayer-supported debt-to-GDP ratio, a key measure of the province's ability to repay debt, reflects the importance of both strong economic growth and balanced budgets in achieving an affordable level of debt.
- This budget sets out a plan to build a strong and vibrant economy and to eliminate the deficit, thereby restoring confidence in the future. The plan puts the province's finances on a sound, sustainable path and returns prosperity to British Columbians.

1.1 — Overview

TABLE 1.1
SUMMARY ACCOUNTS OPERATING RESULTS

	2001/02 July 30 Update[1]	2001/02 Revised Forecast[1]	Budget Estimate 2002/03	Plan 2003/04	Plan 2004/05	Change[2] from 2001/02
	($ millions)					(per cent)
Consolidated revenue fund (CRF):						
Revenue	22,924	22,853	22,038	23,159	24,325	6.4
Expenditure	(25,102)	(25,637)	(25,556)	(24,935)	(24,128)	(3.9)
CRF balance	(2,178)	(2,784)	(3,518)	(1,776)	197	
Crown corporations and agencies:						
Taxpayer-supported	(226)	(94)	(206)	(198)	(212)	
Self-supported commercial	66	(480)	74	174	115	
Total net contribution (loss) of Crown corporations and agencies	(160)	(574)	(132)	(24)	(97)	
Subtotal	(2,338)	(3,358)	(3,650)	(1,800)	100	
Expanded government entity[3]	—	—	—	—	(100)	
Forecast allowance	(500)	(70)	(750)	—	—	
Deficit before joint trusteeship	(2,838)	(3,428)	(4,400)	(1,800)	—	
Joint trusteeship (one-time adjustment)	1,338	1,464	—	—	—	
Deficit	(1,500)	(1,964)	(4,400)	(1,800)	—	

[1] July 30 Update refers to the *Economic and Fiscal Update* presented July 30, 2001. In order to be consistent with the presentation used for 2002/03, figures have been restated to reflect the dissolution of Forest Renewal BC. The effect of this change increased CRF revenue and expenditure with an offsetting change in the Crown corporation sector. There is no effect on the summary accounts deficit.
[2] Revenue change between the 2004/05 plan and the 2001/02 revised forecast. Expenditure change between the 2004/05 plan and the July 30 Update.
[3] The government has a legislative requirement to comply with generally accepted accounting principles (GAAP) by 2004/05. For the purposes of this presentation, an estimate is provided of the potential impact of including elements of school districts, universities, colleges and health authorities as suggested by GAAP.

This is the government's first three-year fiscal plan since assuming office in June 2001. It continues the strategy started last year to revitalize the economy and it addresses a legislative requirement to balance the budget by 2004/05.

The plan is designed to bring government expenditures into line with revenues over the next three years through planned, phased spending reductions and measures to stimulate the economy. It is based on the current economic forecast and is built on the three-year service plans of ministries and Crown corporations released with this budget.

A provision has been included in 2004/05 in order to meet a legislative reporting requirement to expand the government's bottom-line to include elements of the larger public sector under generally accepted accounting principles.

The fiscal plan will be achieved through two strategies:

- building a strong and vibrant economy; and
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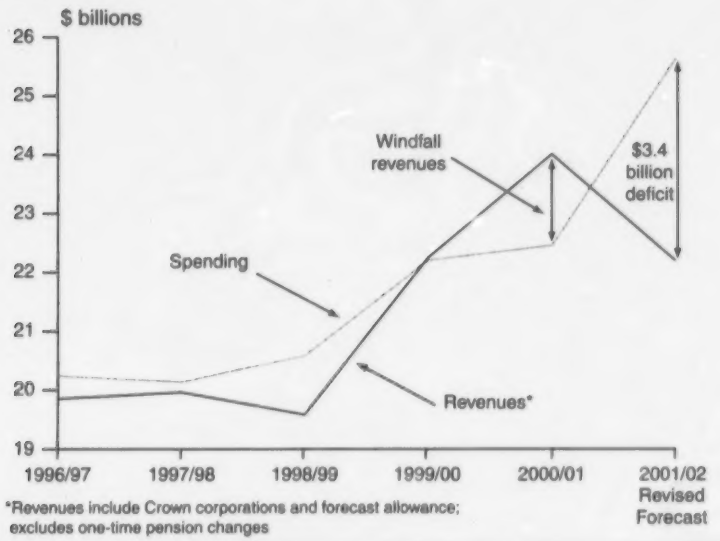
Why BC Has a Fiscal Problem

A structural fiscal imbalance occurs when underlying annual revenue growth created through the economy (removing the effect of short-term revenue spikes and windfalls, or recessionary shocks) cannot keep pace with ongoing annual spending.

The following chart shows that the surplus in 2000/01 was mainly the result of windfall revenue caused by a spike in energy prices. However, it also shows that the $2.3-billion budgeted spending increase in 2001/02 is unsustainable now that the energy spike has passed. This has resulted in a deficit of $3.4 billion for 2001/02.

Chart 1.1



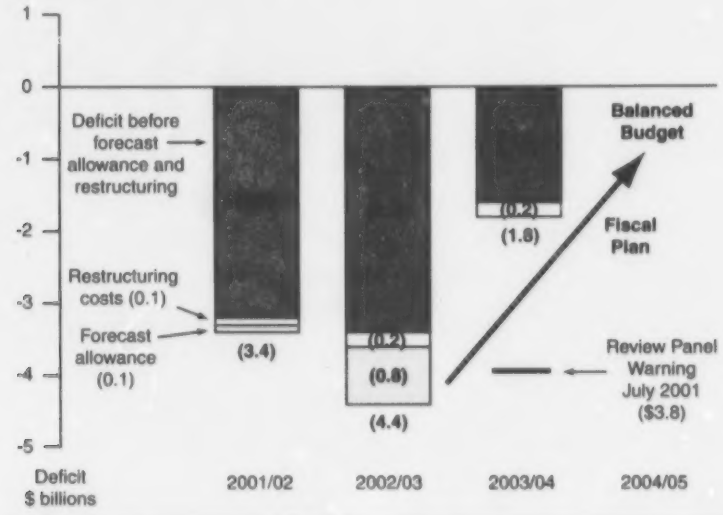
*Revenues include Crown corporations and forecast allowance; excludes one-time pension changes

The erosion of BC's tax and investment climate has contributed to this deficit. Over the last decade, BC's economy has lagged other provinces, its tax rates have become uncompetitive, investment has eroded and many people and businesses have left for other provinces.

In July 2001, the Fiscal Review Panel concluded that the structural fiscal imbalance created over previous years was not sustainable and could pose a serious threat to the future financial health of the province. The government was warned that without changes, it could face a deficit of nearly $4 billion by 2003/04. This status quo was unacceptable to the government.

The fiscal plan addresses this problem by reducing the deficit to $1.8 billion in 2003/04 — below the Fiscal Review Panel's projection — and restoring fiscal balance by 2004/05.

Chart 1.2



To reach a balanced budget however, the deficit will temporarily increase to $4.4 billion in 2002/03. This will allow the government to protect health and education funding despite weakened economic and revenue growth, while continuing to invest in measures necessary to restore economic competitiveness. It also provides time for ministries to complete the restructuring set out in their service plans.

The 2002/03 forecast includes a $750-million forecast allowance and it also recognizes $230 million of restructuring costs needed to prepare the way for balancing the budget in 2004/05.

Many of the economic and fiscal problems today have evolved over the last decade. Likewise, the economic change necessary to restore prosperity will take time and can't happen overnight.

The three-year fiscal plan assumes that with a recovery from the current economic slowdown, the combined positive effects of the strategies to build a strong and vibrant economy and eliminate the deficit will help to ensure that BC's economic and financial prosperity will continue well beyond 2004/05.

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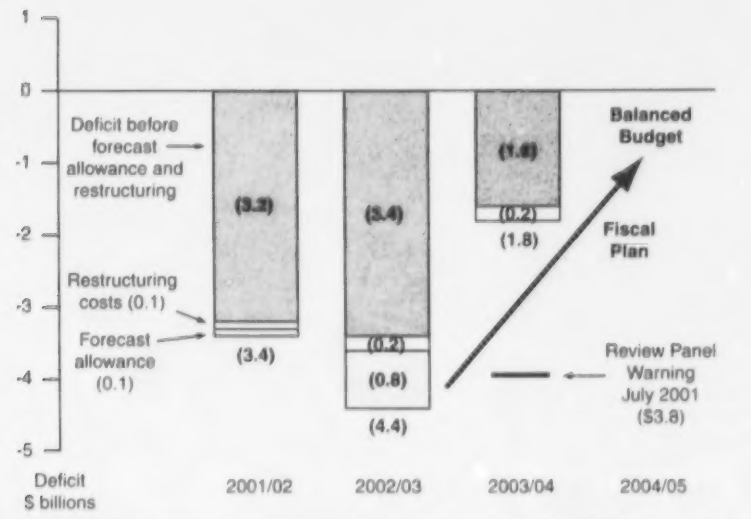

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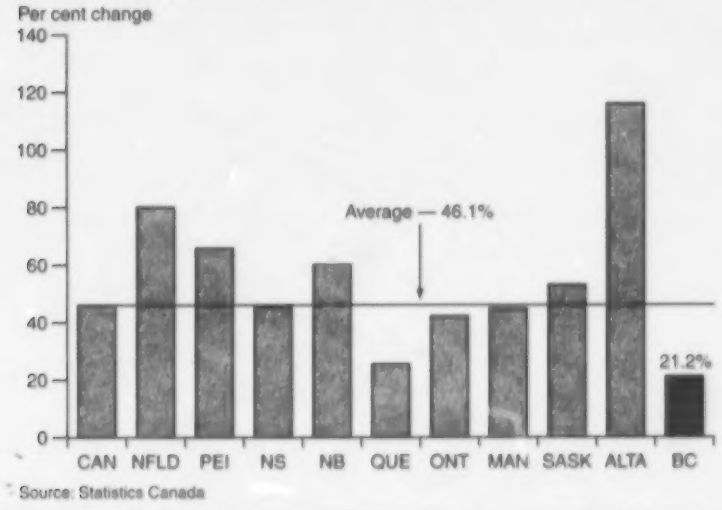
1.2 — Building a Strong and Vibrant Economy

The Challenge

BC's economy suffered during the 1990s. A burdensome tax and regulatory environment, coupled with an untenable fiscal situation, seriously undermined investor and consumer confidence. The results speak for themselves:

- Business investment growth was among the worst in the country.

Chart 1.3
Real Private Capital Formation 1990–2000



Source: Statistics Canada

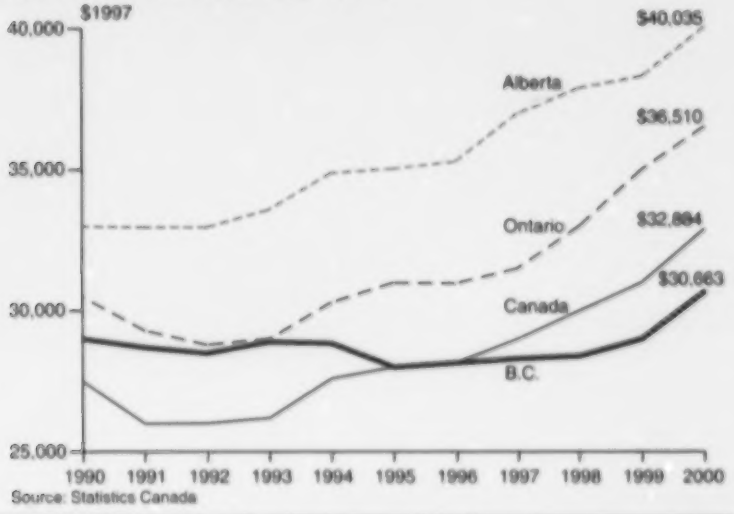
- BC's productivity growth lagged the rest of Canada.

Chart 1.4
Productivity Growth 1990–2000

Source: Statistics Canada

- Real GDP per capita was flat and ended the decade below the Canadian average.

Chart 1.5
Real GDP Per Person 1990–2000



Source: Statistics Canada

- Many people left the province for other parts of Canada.

The challenge is to create an economic environment that fosters confidence, innovation and productivity growth. Successfully meeting this challenge will ultimately lead to greater prosperity for all British Columbians. It will also help the government to meet its fiscal objectives and fund the health and education programs that British Columbians need by generating stable and sustainable revenues.

The *British Columbia Government Strategic Plan 2002/03 – 2004/05* sets ambitious goals for improving the economic situation in the province in terms of increased investment, more job opportunities and higher incomes. The key elements of the government's three-year fiscal plan to achieve these targets are summarized below.

Overall approach

The government's overall strategy for restoring confidence in the economy and creating a stable and growing revenue base has four essential elements:

- A stable, competitive policy framework including:
  - — eliminating the deficit by 2004/05;
  - — a competitive, efficient tax and royalty system;

  - — flexible, responsive labour policy that is fair to workers and employers;
  - — improved certainty of land access and tenure; and
  - — reduced regulatory burden and streamlined approval processes.
- Ambitious, but achievable sector strategies to lay the foundation for increased investment and productivity growth in key sectors of the economy.
- Environmental policy designed to achieve its goals as efficiently as possible with an emphasis on performance-based regulation.
- An education system that offers relevant, affordable education and training programs for British Columbians of all ages and needs.

Stable and Competitive Policy Framework

Personal Income Tax Cut

On June 6, 2001, as a first step toward renewing confidence in BC's economic future, the government cut personal income taxes by 25 per cent. British Columbians now have the lowest personal income tax rates in the country for the bottom two tax brackets.

The cut also lowered the top marginal income tax rate from the highest in Canada to the second lowest. This addressed a significant competitiveness issue that encouraged tax avoidance and undermined the province's ability to attract and retain the highly skilled people that are essential to securing BC's economic future.

The vehicle surtax threshold was also raised to $47,000 from $32,000. In total, the personal tax cuts will return more than $1.5 billion to taxpayers in 2002/03.

A Competitive Tax Structure for Business

In the July 30 Update the government unveiled an aggressive timetable for restoring BC's business tax competitiveness. Key tax changes included:

- reducing the corporate income tax rate to 13.5 per cent from 16.5 per cent;
- eliminating the corporation capital tax on general corporations in two stages;
- introducing a new provincial sales tax exemption for production machinery and equipment; and
- eliminating the tax on bunker fuel and reducing the domestic jet fuel tax rate by 3 cents per litre.

In total these cuts will lower the business tax burden by more than $700 million annually by 2003/04.

The *Budget and Fiscal Plan* includes new measures to improve competitiveness, including increasing the threshold for the small business income tax rate to $300,000 and expanding the definition of parts that are eligible for exemption from provincial sales tax. These measures will return an additional $25 million to business in 2002/03.

In 2002/03 the personal and business tax cuts will total more than $2.1 billion. The increases to MSP premiums, the provincial sales tax rate and tobacco taxes to help fund health compensation pressures will total about $760 million. Thus the net tax cut in 2002/03 will be almost $1.4 billion.

In addition, the government will strive to ensure that the corporate income tax rate remains competitive.

Deregulation

The government has launched a comprehensive deregulation initiative designed to reduce regulations by one-third over three years.

Each ministry is preparing a three-year deregulation plan under the guidance of the Minister of State for Deregulation. At the same time, business stakeholders are participating in a red-tape-reduction task force to identify unnecessary and burdensome regulations.

This process is the most comprehensive of any deregulation initiative in North America and progress has already been made by:

- restoring the open tendering process;
- eliminating the Highway Constructors Ltd. requirements for government highway and silviculture projects; and
- repealing the fixed-wage law.

Other initiatives that are underway include:

- developing single-window permitting agencies;
- reviewing the Workers' Compensation Board (WCB) to ensure it operates as efficiently as possible; and
- examining current employment standards with a focus on improving flexibility.

Eliminating Business Subsidies

Business subsidies that provide an economic advantage to firms on a selective basis tend to undermine investor confidence. Subsidies create uncertainty because successful investors can never be sure whether the government will step in and offer artificial support for their less adept competitors.

In August 2001, the government established a framework for reviewing all ministry programs to determine which ones constituted business subsidies. The first phase of this review has now been completed and the business subsidies identified through this process have been eliminated.

The process of identifying and removing additional business subsidies is continuing.

Infrastructure

The government is committed to a modern, efficient transportation and communications infrastructure based on innovative partnerships with the private sector.

The emphasis will be on developing public-private partnerships (P3s) that encourage innovative and flexible approaches to supplying the infrastructure and services needed for an efficient modern economy. Attracting private sector participation in the development of BC's infrastructure reflects the government's commitment to achieve the maximum benefit for every tax dollar invested.

This new approach should also allow BC to develop a world class capability in this area that can be exported to other jurisdictions.

Strategies for Key Sectors

Forestry

BC's forest industry will remain an important nucleus of the provincial economy, particularly in areas outside the lower mainland. In the short term, the softwood lumber dispute with the U.S. poses a major risk to the health of the industry in BC. However, the government is introducing several initiatives to place the industry on a more secure and competitive footing for the future including:

- moving toward a market-based stumpage system to ensure that stumpage payments reflect the real value of the resource;
- introducing tenure reforms to increase flexibility for forest companies to adapt to changing market conditions;
- establishing a working forest base to provide greater certainty for the future of the industry;
- streamlining the Forest Practices Code to establish a results-based regulatory environment that will ensure sustainability and accountability; and
- over time, working to increase the annual allowable cut based on improved management of the resource.

Energy Development

The energy sector in BC is poised to assume an even more important role in the provincial economy. Provincial revenues from electricity as well as oil and gas have shown strong growth in recent years and there is considerable potential for future expansion.

The government established a task force to initiate a comprehensive review of BC's energy policy. An interim report was submitted in November 2001. On the electricity side, the report calls for:

- restructuring BC Hydro based on market principles;
- a gradual move to market prices for electricity; and
- the private sector to construct new generation facilities in the province.

It also advocates enhanced conservation, development of alternative energy sources and the consideration of coal as a possible source of electrical generation capacity. The Energy Policy Task Force is currently finalizing its report based on comments received from interested parties. The final report is due by March 15, 2002. The government will consider the recommendations with a view to securing the long-term future of the energy sector.

BC's oil and gas sector, in particular, is an emerging star of the provincial economy. It demonstrated significant growth during the 1990s. The government is working to accelerate the development of the industry through initiatives such as:

- a new royalty and regulatory structure to encourage drilling and production of coalbed methane;
- extending the date to which preferential Base 9 royalty rates apply until December 31, 2003;
- strategic infrastructure projects to improve land access; and
- the introduction of a single-window permitting process.

In January 2002, a report on the offshore oil and gas moratorium was submitted to the Minister of Energy and Mines by a scientific panel appointed by government. The government will consider the opportunities for offshore development based on the scientific evidence and the potential opportunities for northern coastal communities.

Mining

BC's mining sector has suffered through a turbulent ten years. In part this was a result of relatively low commodity prices, but it was also due to an uncompetitive tax regime, uncertain access to the resource and a complicated and often indeterminate environmental review process. However, the long-term prospects for the industry are bright.

The province has extensive mineral potential and the recent tax changes have improved competitiveness considerably. The government is committed to improving the certainty of access to the resource by adopting "go" or "no go" designations for exploration and development. Regulatory requirements will be streamlined while ensuring that high environmental standards are maintained. The province will also work with the mining industry to increase economic opportunities for First Nations.

With these changes and with some recovery in prices, there are realistic prospects for several new mines to open in the province during the next few years.

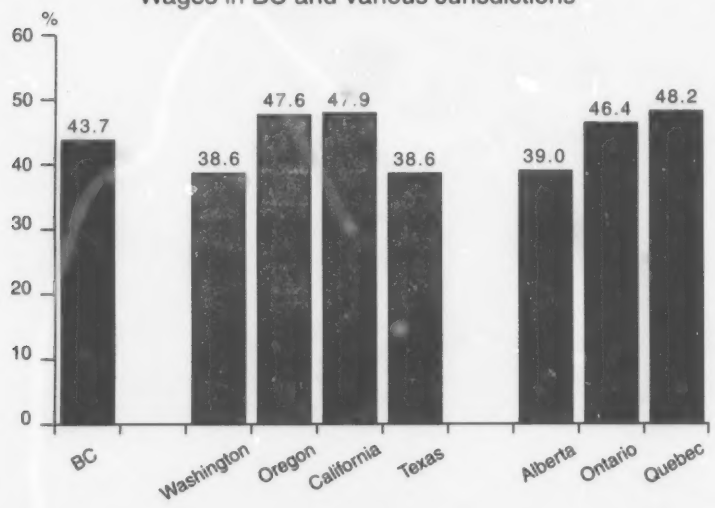
High-Tech

The Premier's Technology Council believes that BC can become one of the leading technology centres in the world. Based on a realizable annual growth rate of 10 per cent, high-tech could become the largest industrial sector in the province within ten years.

The government has already taken several steps toward achieving this growth target, including:

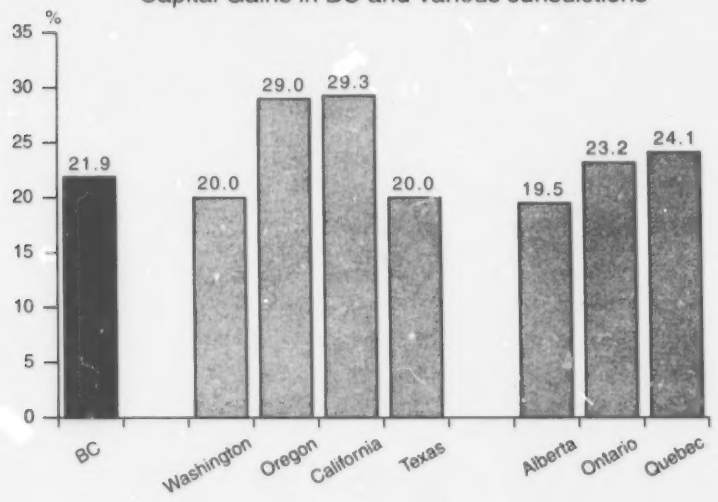
- cutting the top marginal personal income tax rate to the second lowest in Canada. This will be key to attracting and retaining the highly skilled workers and entrepreneurs needed for the high-tech industry;

Chart 1.6 Top Marginal Personal Income Tax Rate on Wages in BC and Various Jurisdictions



- improving the tax treatment of stock option plans that many high-tech companies rely on to attract the people they need for success. The cut in provincial tax rates combined with federal tax changes has significantly reduced the tax paid on stock options and capital gains in the province. The government will work with the Premier's Technology Council to ensure that British Columbia is competitive in this area;

Chart 1.7 Top Marginal Personal Income Tax Rate on Capital Gains in BC and Various Jurisdictions



- BC's 10-per-cent research and development tax credit enhances Canada's already favourable tax regime for research and development activities;
- phasing out the corporation capital tax for general corporations will reduce the fixed costs of operating a high-tech manufacturing plant in BC, and
- the new provincial sales tax exemption for production machinery and equipment will assist BC's high-tech manufacturing and software development sectors.

Beyond these substantial steps, the government is committed to additional initiatives to encourage the sector, including:

- doubling the number of computing science and electrical engineering graduates from BC's universities and colleges;
- establishing 20 leading-edge research chairs in partnership with the private sector and post-secondary institutions; and
- adopting new strategies to attract senior management to BC.

Film and Television

Through a combination of carefully designed tax incentives, a skilled work force, excellent facilities and an attractive exchange rate, BC's film and television industry has blossomed in recent years. There is considerable potential for further expansion.

In particular, opportunities exist in animation and new media, and over the next several months the government will consider the possibility of introducing changes to provide additional encouragement in these exciting new areas.

Tourism

Tourism has been a mainstay of the provincial economy in recent years and has been a source of growth throughout the province. The government is committed to doubling tourism's contribution to BC's economy through initiatives such as:

- streamlining decisions regarding access to Crown land;
- encouraging the cruise-ship industry through expanded facilities and removing the tax on bunker fuel;
- creating more flexible working arrangements;
- aggressively championing Vancouver's bid for the 2010 Olympic Winter Games; and
- promoting private sector participation in the expanded Vancouver Convention and Exhibition Centre and the Sea-to-Sky Highway.

Aquaculture and Agriculture

In 1995, a moratorium was imposed on new marine salmon farm tenures. An Environmental Assessment Office scientific review, completed in 1997, concluded that, as practised, the risks of salmon aquaculture to the environment were low. The review made 49 recommendations that would further reduce risks of salmon aquaculture, all of which were accepted in full by government and industry.

Many of the recommendations have already been adopted. Improved and new policies for fish escapes, fish health, pen siting and relocation, fish waste, and research and development have been developed and will be finalized by April 30, 2002.

New comprehensive environmental standards and practices will allow for the managed expansion of the salmon aquaculture industry in BC beginning April 30, 2002.

BC farmers will benefit from a more regionally responsive Agricultural Land Commission. In addition, government will gradually phase-out subsidies to generate greater competitiveness, self-regulation and independence in agriculture.

To encourage additional research and development in agriculture, BC will mirror the recent federal announcement to make farm producers who contribute funds for research and development eligible for investment tax credits.

Small Business

In addition to increasing the threshold for the small business income tax rate, the small business community will benefit from many of the government's earlier tax cuts.

Small businesses have consistently argued that the cost of interacting with government is too high. The Premier will lead a series of roundtables on small business to seek advice on how to reduce these costs, remove barriers to expansion and create new opportunities for growth. Many of the deregulation initiatives such as the review of the WCB and employment standards will be of particular benefit to small businesses. In addition, the introduction of a new *Company Act* will provide a modern operating framework for businesses of all types.

Marketing the BC Economy

Realizing the full economic benefits of this comprehensive and far-reaching strategy will depend on ensuring the world is aware of BC's new economic vitality.

Other jurisdictions have had considerable success in establishing a "brand" that reinforces their economic vision. The government is currently developing a similar campaign to market BC as an attractive place to work, live and invest.

Sustainable Environmental Policies

The government places a high priority on encouraging a thriving private sector economy that creates high-paying jobs, maintains high environmental standards and respects the strong environmental values of British Columbians.

BC's economy is based both on the direct use of natural resources (for example, by forestry) and on activities (such as tourism) that depend strongly on natural diversity and environmental quality.

Prudent management and protection of the natural environment will help ensure that the benefits we enjoy today will be available for our children and grandchildren in the future.

The government is committed to the following environmental principles as it works to develop a vibrant economy that supports the social and environmental values of British Columbians:

- Appropriate environmental standards — set appropriate environmental standards that ensure standards are met and that provide incentives for improved performance.
- Sustainability — manage our natural resources to ensure that the needs of present and future generations of British Columbians are met by balancing economic, environmental and social values.
- Integrated resource management — minimize conflicts over the use of land and resources through co-ordinated decision-making that takes all resource values into account.
- Science-based decision-making — use the best available knowledge and technology to support consistent decision-making.
- Shared stewardship — exercise our stewardship responsibilities in a consultative and collaborative manner, to address diverse interests and build strong governmental, industrial and environmental partnerships.
- Public and client consultation — provide opportunities to contribute to decision-making and improvement of service quality.
- Intergovernmental harmonization — partner with all levels of government to harmonize policies, legislation and standards and establish clear accountability for results.

Educational Excellence

In the new economy, BC's economic prosperity will depend on a high quality, relevant education system that equips students with the skills and knowledge they need. To achieve this goal, the government is refocusing the education system to increase the emphasis on students, to increase accountability and to make the system more flexible and responsive.

Key initiatives include:

- creating more choice for students through enhanced on-line learning and expanded transferability of credits between institutions;
- increasing the number of high-tech graduates, particularly in computer science and electrical and computer engineering;
- expanding industry training in areas such as general trades training and new apprenticeships;
- rationalizing student financial aid to make it more coherent and understandable;
- removing the tuition freeze to increase autonomy and allow institutions to meet the increased demand for high quality programs;
- changing the funding formula for post-secondary institutions to increase accountability, and to focus on results; and
- forging closer links between education and the economy through professional interchanges and leading edge research chairs funded in partnership with the private sector.

Summary

Although BC's economy suffered through a difficult decade in the 1990s, the province has all the fundamental characteristics needed for economic success. The government's economic strategy is designed to unleash this underlying potential. The four key elements to building a strong and innovative economy and securing BC's economic future are:

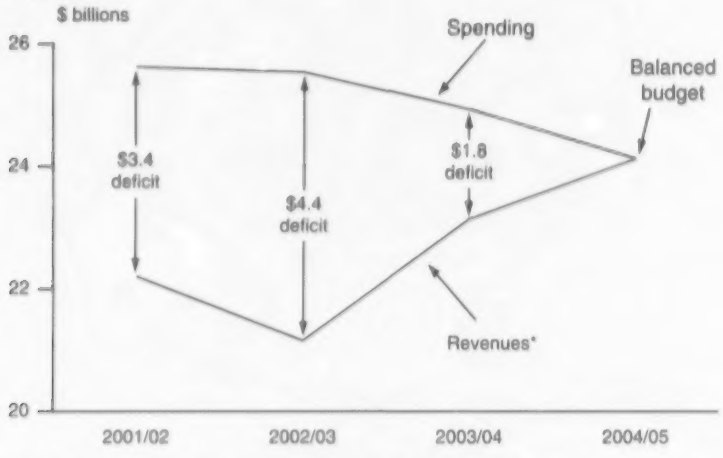
- a competitive policy framework;
- ambitious but achievable sector strategies;
- efficient and sustainable environmental policies; and
- a relevant, affordable education system.

The government is well on the way to achieving its goals in these four areas and is committed to meeting these strategic requirements into the future.

The result should be increased innovation and investment in the economy, more and higher paying jobs, a stable and sustainable revenue base for funding government programs and a bright economic future for BC.

1.3 — Eliminating the Deficit

Chart 1.8
Fiscal Plan



*Includes CRF revenues, Crown corporations, and forecast allowance
Excludes one-time pension adjustment

The fiscal plan shows that after excluding the one-time pension gain in 2001/02, the deficit will increase $1 billion to a total of $4.4 billion in 2002/03. It will be cut by more than half to $1.8 billion in 2003/04 and eliminated by 2004/05.

Key Plan Assumptions — 2002/03 to 2004/05

- A $4.4 billion deficit for 2002/03 results from a 3.6-per-cent decline in CRF revenue, a 0.3-per-cent decrease in spending, a $442-million improvement in the Crown corporation sector, and a $750-million forecast allowance as a cushion against potential risks to the budget.
- After 2002/03, revenues will grow an average of 5.1 per cent annually, in line with the 4.6-per-cent average growth in nominal GDP. This reflects an expected turn around in the North American economy and a rebound in the provincial economy in part due to the tax reduction measures announced last year.
- Total spending will decline by an average 2.8 per cent per year after 2002/03. After addressing health sector compensation pressures in 2002/03, spending for the health and education ministries will remain unchanged in 2003/04 and 2004/05. Spending for other ministries will decline by $1.9 billion or 25 per cent over the three years.
- Crown corporation finances will remain relatively stable over the three years, in part due to restructuring started in 2001/02.
- Over the three-year plan, the resultant revenue increases, spending reductions and Crown corporation improvements will combine to reduce the deficit from $4.4 billion to zero by 2004/05.

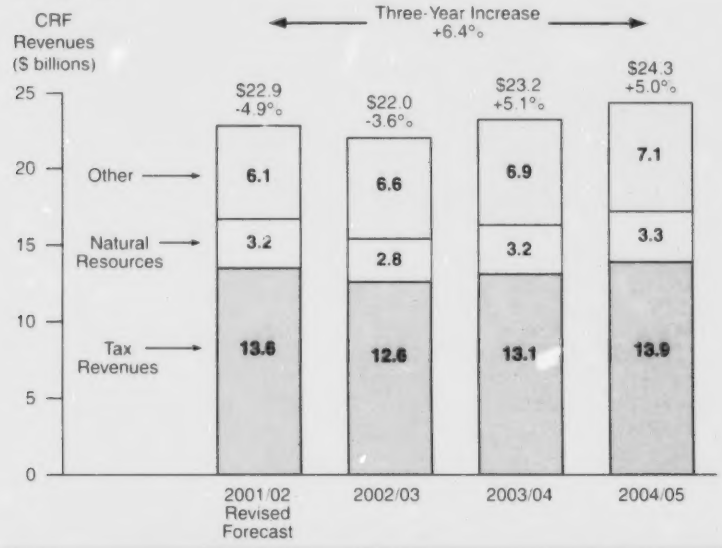
- No forecast allowances are included for 2003/04 or 2004/05 in the fiscal plan. In subsequent budgets, an allowance will be included to help ensure government meets its financial targets and it will be based on an assessment of risks at that time.
- A $100-million provision is included in 2004/05 to recognize a legislative requirement that certain elements of the broader public sector will be included in the government's bottom-line under generally accepted accounting principles.
- In 2002/03, total capital spending will increase $237 million to total $2.7 billion. After 2002/03, capital spending will be reduced $534 million to total $2.2 billion by 2004/05.

1.4 — CRF Revenue

Overview

The revenue forecast is based on the current economic forecast set out in Chapter 2. Despite a brief pause in 2002/03, over the next three years CRF revenues are projected to increase about $1.5 billion or 6.4 per cent from the 2001/02 revised forecast (see Table 1.2).

Chart 1.9



The forecast incorporates the full-year effects of over $2.1 billion of tax reduction measures announced last year plus further reductions in this budget.

It also incorporates new measures introduced to provide funding for regional health sector compensation pressures and to address a recent arbitration decision on physicians' compensation (see Section 1.5 — Revenue Measures for further details).

Revenue Forecast Changes

Revenue is expected to decline 3.6 per cent in 2002/03. This reflects:

- lower assumed electricity prices, a weakened North American and provincial economy, and the lagged effect of weak corporate profits in 2001;
- various one-time revenues occurring in 2001/02 that will not occur in 2002/03 (e.g. prior-year income tax settlements);
- the second phase of the tax-cut investment strategy announced on June 6 and July 30, 2001, worth an additional $755 million in 2002/03;
- further tax competitiveness measures worth roughly $25 million; and
- the introduction of $758 million of new revenue measures, including increases to Medical Services Plan premiums and the social service and tobacco tax rates. These measures will help pay for regional health sector compensation pressures, the recent interim arbitration award on physicians' compensation, and volume increases for physicians' services.

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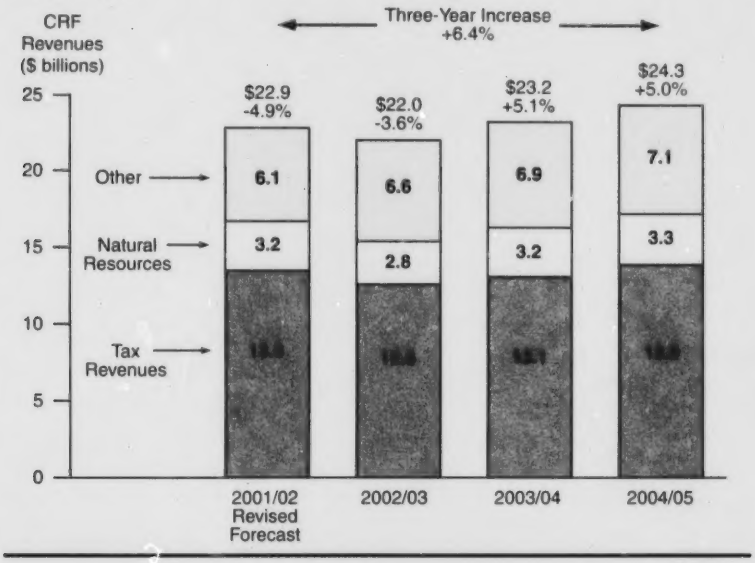

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- the introduction of $758 million of new revenue measures, including increases to Medical Services Plan premiums and the social service and tobacco tax rates. These measures will help pay for regional health sector compensation pressures, the recent interim arbitration award on physicians' compensation, and volume increases for physicians' services.

After factoring in tax competitiveness and other measures, total revenue measures in 2002/03 are reduced to $736 million.

In 2003/04 and 2004/05, revenue is projected to grow an average 5.1 per cent per year. A more competitive tax structure, rising consumer and business confidence and a recovery in the North American and provincial economies are expected to contribute to strengthening commodity prices, new investment and employment growth.

Details on the three-year revenue outlook are shown in Table 1.2. Based on the 2001/02 revised forecast, highlights of major revenue changes include:

Taxation Revenue

After weakening in 2002/03, overall taxation revenue in the following two years will begin to pick up. This reflects a recovery in the economy in part due to the tax reduction and investment measures started last year and new measures in this budget.

- *Personal income tax* — a 9.4-per-cent decline in 2002/03 is mainly the result of non-recurring prior-year assessments received in 2001/02 and tax cuts announced last June and July. Over the next two years, growth will average 6.4 per cent annually due to higher tax yields in response to stronger personal and labour income growth.
- *Corporation income tax* — the effect of lags in the federal tax collection system, a lower national tax base, a projected decline in provincial corporate profits in 2001 and 2002, and tax cuts announced last year will result in a 49-per-cent drop in revenue in 2002/03 and only a small increase in 2003/04. However, revenue is expected to rebound by 2004/05.
- *Social service and other taxes* — social service tax revenue will increase 18 per cent over the three-year period. The increase reflects the net effect of a higher tax rate in 2002/03 and an outlook for stronger consumer spending growth.

A higher tobacco tax rate in 2002/03 will result in a 33-per-cent increase in tobacco tax revenue by 2004/05. Corporation capital tax revenue will decline due to the tax-competitive measures introduced last year while other sources will grow generally in line with the economy.

Natural Resource Revenue

Revenue will increase 3.1 per cent over the three-year period. A 10.7-per-cent drop is expected in 2002/03 mainly due to lower assumed electricity prices and forest harvest volumes reflecting weak U.S. demand and economic growth in 2002.

Over the following two years, revenue will recover as commodity prices rise with strengthening global economies and increased electricity sales under the Columbia River Treaty, and grow an average 7.5 per cent per year.

TABLE 1.2
REVENUE BY SOURCE[1]
CONSOLIDATED REVENUE FUND

	2001/02					
	July 30 Update	Revised Forecast	Budget Estimate 2002/03	Plan 2003/04	Plan 2004/05	Change[2] from 2001/02
	($ millions)					(per cent)
Taxation Revenue:						
Personal income	4,935	5,355	4,854	5,159	5,499	2.7
Corporation income	1,154	1,520	779	793	1,009	(33.6)
Social service	3,664	3,535	3,802	3,982	4,175	18.1
Property	1,406	1,397	1,425	1,454	1,485	6.3
Fuel	416	400	395	398	413	3.3
Tobacco	463	470	622	624	627	33.4
Corporation capital	347	367	165	90	91	(75.2)
Other[3]	572	580	598	617	639	10.2
Less: commissions and doubtful account provisions	(49)	(61)	(55)	(55)	(55)	(9.8)
	12,908	13,563	12,585	13,062	13,883	2.4
Natural Resource Revenue:						
Natural gas royalties	1,323	805	925	1,028	1,073	33.3
Petroleum royalties, permits, fees and minerals	543	505	445	447	456	(9.7)
Forests[4]	1,337	1,245	1,145	1,278	1,297	4.2
Columbia River Treaty	475	355	85	165	185	(47.9)
Water and other resources	315	298	265	293	297	(0.3)
Less: commissions and doubtful account provisions	(12)	(12)	(12)	(12)	(12)	0.0
	3,981	3,196	2,853	3,199	3,296	3.1
Other Revenue:						
Medical Services Plan premiums	904	947	1,299	1,342	1,353	42.9
Motor vehicle licences and permits	345	345	347	357	368	6.7
Other[5]	577	549	548	565	601	9.5
	1,826	1,841	2,194	2,264	2,322	26.1
Contributions from Government Enterprises:						
Liquor Distribution Branch	616	627	640	650	650	3.7
British Columbia Hydro and Power Authority	346	329	283	301	297	(9.7)
British Columbia Lottery Corporation	429	444	476	553	596	34.2
Other	20	24	21	19	25	4.2
	1,411	1,424	1,420	1,523	1,568	10.1
Contributions from the Federal Government:						
Canada health and social transfer	2,620	2,660	2,805	2,930	3,075	15.6
Other cost-shared agreements	178	169	181	181	181	7.1
	2,798	2,829	2,986	3,111	3,256	15.1
TOTAL REVENUE	22,924	22,853	22,038	23,159	24,325	6.4

[1] Revenue amounts exclude dedicated revenue collected on behalf of, and transferred to, Crown corporations, agencies and other entities (2001/02 July 30 Update: $706 million; 2001/02 revised forecast: $706 million; 2002/03 budget estimate: $765 million; 2003/04 plan: $793 million; 2004/05 plan: $824 million). For details, see Table A7.
[2] Per cent change between the 2004/05 plan and 2001/02 revised forecast.
[3] Includes revenue from property transfer tax, insurance premium tax, and hotel room tax.
[4] For comparison purposes, figures for 2001/02 have been restated to include revenue of Forest Renewal BC, which will be dissolved at the end of 2001/02.
[5] Includes revenue from fees and licences, asset dispositions, investment earnings, other miscellaneous sources and adjustments for commissions and doubtful accounts.

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[5] Includes revenue from fees and licences, asset dispositions, investment earnings, other miscellaneous sources and adjustments for commissions and doubtful accounts.

- *Energy* — revenue from petroleum and natural gas will increase 17 per cent by 2004/05 due to gradually increasing natural gas prices and higher energy requirements in response to growth in the North American economy.

  Electricity sales under the Columbia River Treaty show a significant drop in 2002/03 due to lower assumed electricity prices in the U.S., but will pick up in the next two years due to higher volume entitlements under the treaty.

- *Forests* — commodity prices are expected to rise as the North American economies recover from the slowdown in 2001. Aided by planned provincial tenure reform, this will contribute to a 4.2-per-cent increase in revenue by 2004/05. The forecast is based on prudent assumptions pending resolution of the softwood lumber dispute.

Other Revenues

- *Fees, licences and other sources* — The forecast incorporates additional full-year revenue of $392 million ($358 million in 2002/03) resulting from an increase in Medical Services Plan premiums mainly to provide funding to address health care compensation pressures.
- Crown corporation dividends are based on the three-year service plans of those agencies and are expected to increase 10 per cent over the next three years.
- *Federal contributions* — the forecast assumes that contributions will increase 15 per cent over the next three years primarily due to increased Canada health and social transfer (CHST) entitlements. The forecast assumes that no significant revenue entitlements, if any, will occur under the federal equalization program.

Appendix Table A9 provides the fiscal plan's key economic and other assumptions for the main revenue sources over the next three years. The table also provides estimates of the sensitivities of revenues to changes in individual assumptions.

1.5 — Revenue Measures

Summary of Revenue Measures

The revenue measures included in the *Budget and Fiscal Plan* are designed to:

- raise additional revenue to help offset the cost of compensation increases in the health sector. These increases are required to help ensure the recruitment and retention of high-demand health workers and professionals, including doctors;
- continue with modest changes to make the tax system more competitive; and
- streamline and improve the fairness of the tax system.

The changes that will help to offset the almost $800-million cost of health care sector compensation pressures in 2002/03.

- A 50-per-cent increase in MSP premiums that will raise $358 million in 2002/03. However, enhancements to the premium assistance program mean that premiums will actually be lower for 230,000 British Columbians.
- Raising the provincial sales tax rate to 7.5 per cent from 7 per cent. This will raise $250 million in 2002/03. To protect taxpayers that currently receive the refundable sales tax credit from the higher rate, the credit will be increased to $75 from $50 per adult.
- Increasing the tobacco tax rate by $8 per carton of 200 cigarettes and the tax on fine-cut tobacco by an equivalent amount. After taking into account changes in smoker behaviour, this is expected to raise $150 million in 2002/03.

Other tax changes include:

- Increasing the average residential school property tax by 2 per cent (2002/03 revenue increase: $20 million).
- Increasing the average residential rural area property tax by 2 per cent (2002/03 revenue increase: $1 million).

To build on the process of improving BC's tax competitiveness:

- the definition of parts that can be purchased exempt from provincial sales tax will be expanded; and
- the threshold for the small business income tax rate will be increased to $300,000. The threshold increase parallels similar changes in five other provinces. These measures will return roughly $25 million to business taxpayers in 2002/03.

The major streamlining and fairness measures include:

- meeting a New Era commitment by introducing a refund of provincial sales tax paid on purchases for schools with parent advisory council raised funds;
- rewriting the *Corporation Capital Tax Act* to fully reflect the elimination of the tax on general corporations;
- introducing a new provincial sales tax exemption for chemicals used to make ammonium bisulfite for pulp production;
- introducing an exemption for boats and travel trailers owned by non-resident individuals; and
- making changes to the residential school property tax to allow a separate tax rate in municipalities that have much higher property values than the rest of the school district. For the 2002 property tax year, Tofino will be the only municipality to qualify for a separate rate.

TABLE 1.3
SUMMARY OF REVENUE MEASURES

	Effective Date	Taxpayer Impacts 2002/03	2003/04
		($ millions)	
Income Tax Act* — *Personal Income Tax			
• Change tax adjustment rates for alternative minimum tax	January 1, 2002	*	*
• Change overseas employment tax credit rate	January 1, 2002	*	*
• Increase disability-related credits	January 1, 2002	(4)	(4)
• Increase sales tax credit	January 1, 2002	(20)	(20)
• Adjust BC Family Bonus[1]	July 1, 2002	8	19
Income Tax Act* — *Corporate Income Tax			
• Raise small business tax rate threshold to $300,000	April 1, 2002	(10)	(13)
Medicare Protection Act			
• Increase medical services plan premiums and enhance premium assistance	May 1, 2002	358	392
Corporation Capital Tax Act			
• Introduce investment allowance for banks and trust companies	September 1, 2002	*	*
• Amend formula for calculating paid-up capital of authorized foreign banks	February 19, 2002	*	*
• Remove references to general corporations and partnerships	September 1, 2002	*	*
Petroleum and Natural Gas Act			
• Introduce new royalty formula for coalbed methane	March 1, 2002	*	*
• Extend Base 9 land sales to December 31, 2003	January 1, 2002	*	*
Social Service Tax Act			
• Increase provincial sales tax rate to 7.5 per cent from 7 per cent	February 20, 2002	250	250
• Provide additional tax exemptions for *bona fide* farmers	February 20, 2002	(1)	(1)
• Expand tax exemption for parts used for exempt machinery and equipment	February 20, 2002	(15)	(15)
• Provide tax refunds for purchases for schools made with Parent Advisory Council funds	July 1, 2002	(1)	(1)
• Introduce tax exemption for chemicals to make ammonium bisulfite for pulp production	March 31, 1998	*	*
• Introduce tax exemption for boats and travel trailers owned by non-resident individuals	February 20, 2002	*	*
• Allow pick-up trucks and service vehicles to qualify for multi-jurisdictional vehicle tax	January 1, 1996	*	*
• Clarify application of tax to royalty payments and licence fees	March 31, 1998	*	*
Tobacco Tax Act			
• Increase tobacco tax rate to $30 from $22 per carton of 200 cigarettes and to 15 cents from 11 cents per gram of loose tobacco	February 20, 2002	150	150
Hospital District Act and Assessment Authority Act			
• Ensure taxpayer exemptions are consistent for all taxing authorities which use the hospital roll	December 31, 2001	*	*
School Act			
• Increase average gross residential school property taxes by 2 per cent; rates will vary by school district	January 1, 2002	20	20
• Leave non-residential school property tax rates unchanged	January 1, 2002	*	*
• Allow more than one residential school tax rate within a school district	January 1, 2002	*	*
Taxation (Rural Area) Act			
• Increase average gross residential taxes by 2 per cent	January 1, 2002	1	1
• Leave non-residential provincial rural area tax rates unchanged	January 1, 2002	*	*
Home Owner Grant Act			
• Confirm existing rules for disability portion of the home owner grant and initiate a review of options for the future	various	*	*
Total		736	778

[1] The amount shown is the full impact on the program's cost, 60 per cent of which is reported in the *Estimates* as an expenditure with the remaining 40 per cent reported as a reduction in personal income tax revenue.
* Denotes measures that have no material impact on the status quo revenue forecast for provincial revenues.

TABLE 1.3
SUMMARY OF REVENUE MEASURES — *Continued*

	Effective Date	Taxpayer Impacts 2002/03	2003/04
		($ millions)	
Additional Revenue for Greater Vancouver Transportation Authority (TransLink)			
Motor Fuel Tax Act			
• On behalf of *TransLink*, increase tax rates on clear gasoline and diesel collected in the Greater Vancouver transportation service region by 2 cents per litre[2]	April 1, 2002	42	43
Social Service Tax Act			
• Provide authority for *TransLink* to increase its parking tax rate up to 21 per cent[2]	June 1, 2002	—	—

[2] Taxpayers in the Greater Vancouver transportation service area will be affected by the increase, but it has no impact on provincial revenues.

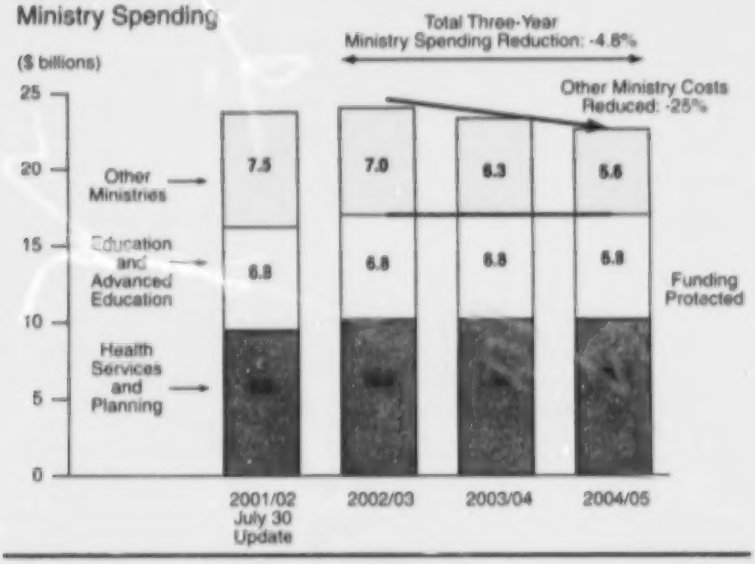
1.6 — CRF Spending

Overview

Compared to the July 30 *Economic and Fiscal Update*, overall government spending will fall by $974 million or 3.9 per cent by the end of the next three years. After a 1.8-per-cent budget increase in 2002/03, mainly to fund high-demand health professionals and workers, including physicians, annual spending will decline by about 2.8 per cent in each of the following two years.

Ministry spending, including the Premier's Office, will show an overall decline of 4.8 per cent by 2004/05. This decrease is partially offset by increasing costs for debt interest.

Chart 1.10
Ministry Spending



The spending plan is based on the ministry three-year service plan summaries announced on January 17, 2002. It has been updated to incorporate additional funding provided for physicians, health authorities and other areas, and it also includes spending plans for special offices, contingencies, restructuring and debt interest.

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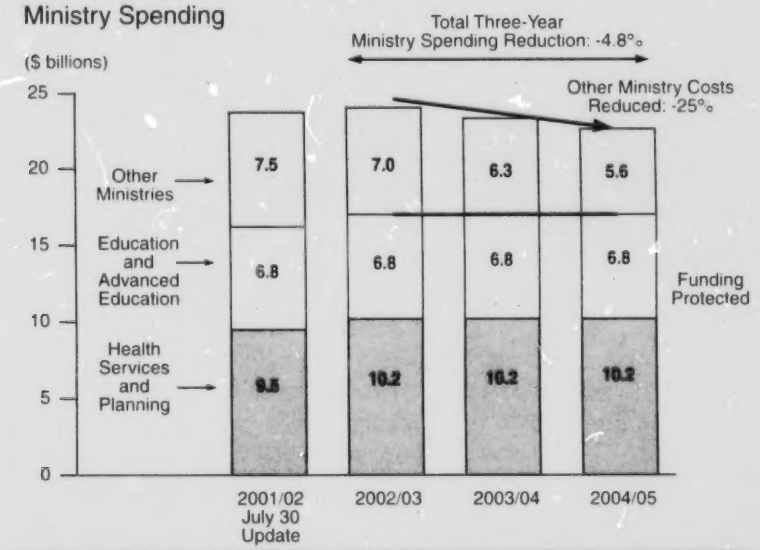

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TABLE 1.4
MINISTRY 3-YEAR SPENDING PLANS
CHANGES SINCE JANUARY 17, 2002

	Budget Estimate 2002/03	Plan 2003/04	Plan 2004/05
Total Ministries and Premier's Office — January 17, 2002	**23,321**	**22,633**	**21,936**
Changes Since January 17, 2002:			
Advanced Education — cost of MSP premium increases for workers	8	8	8
Education — cost of MSP premium increases for workers	19	19	19
Health Services and Planning:			
— additional compensation funding for health sector	365	365	365
— additional costs resulting from arbitration decision on physicians' compensation*	320	320	320
Transportation and other minor changes	12	(2)	—
Subtotal	**724**	**710**	**712**
Total Ministries and Premier's Office	**24,045**	**23,343**	**22,648**

* A further $73 million was added to contingencies for health compensation.

Table 1.4 provides a summary of changes to ministry spending plans since the January 17, 2002 announcements. The most significant changes reflect required increases to Medical Services Plan premiums and the social service and tobacco tax rates to help pay for additional funding for health sector compensation.

Details of ministry three-year spending plans are shown in Table 1.6 and in ministry service plans being released with the budget. Key assumptions and sensitivities are provided in Appendix Table A10.

Restructuring Costs

The fiscal plan includes a provision for one-time restructuring costs to assist ministries with restructuring needed to achieve their service plans. These costs include severance, facility closures and costs to consolidate and relocate operations.

A provision of $490 million for operating costs and $60 million for capital costs is included in the fiscal plan. It is expected that all restructuring will be completed by March 31, 2004. The following table shows the projected deficits over the plan, excluding forecast allowances, the one-time joint trusteeship adjustment in 2001/02 and the non-recurring costs of restructuring. Further information is provided in a topic box.

TABLE 1.5
DEFICIT BEFORE ADJUSTMENTS

	2001/02				
	July 30 Update	Revised Forecast	Budget Estimate 2002/03	Plan 2003/04	Plan 2004/05
	($ millions)				
Deficit before joint trusteeship, forecast allowance and restructuring costs	**(2,338)**	**(3,263)**	**(3,420)**	**(1,635)**	**—**
Forecast allowance	(500)	(70)	(750)	—	—
Operating restructuring costs[1]	—	(95)	(230)	(165)	—
Joint trusteeship (one-time adjustment)	1,338	1,464	—	—	—
Deficit	**(1,500)**	**(1,964)**	**(4,400)**	**(1,800)**	**—**

[1] An additional $60 million is provided for capital restructuring costs and is included as part of capital spending shown in Table 1.8.

Ministry Budget Plan Highlights

The following is a summary of major ministry changes during the next three years. Additional information is found in the individual ministry service plans.

Ministry of Advanced Education

Ministry of Advanced Education's budget is increased by $8 million in 2002/03 to provide for the cost of Medical Services Plan premium increases in the post-secondary sector. Given that the ministry's budget is otherwise held constant, it has developed strategies to manage wage, demand and inflation pressures. The ministry will:

- Implement a new tuition fee policy which allows post-secondary institutions to set tuition rates.
- Provide institutions with tools to increase productivity in the post-secondary system, for example by removing class size restrictions (estimated savings: $37 million over three years).
- Reorganize the ministry to focus on achieving New Era commitments and to move to results-based management (estimated savings: $14 million over three years).
- Eliminate the Youth Community Action and the Student Summer Works programs (estimated savings: $13 million over three years).
- Eliminate the Skills for Employment program and redirecting those funds to other programs and priorities (estimated reallocation: $13 million over three years).

TABLE 1.5
DEFICIT BEFORE ADJUSTMENTS

	2001/02				
	July 30 Update	Revised Forecast	**Budget Estimate 2002/03**	Plan 2003/04	Plan 2004/05
	($ millions)				
Deficit before joint trusteeship, forecast allowance and restructuring costs	**(2,338)**	**(3,263)**	**(3,420)**	**(1,635)**	—
Forecast allowance	(500)	(70)	(750)	—	—
Operating restructuring costs[1]	—	(95)	(230)	(165)	—
Joint trusteeship (one-time adjustment)	1,338	1,464	—	—	—
Deficit	**(1,500)**	**(1,964)**	**(4,400)**	**(1,800)**	—

[1] An additional $60 million is provided for capital restructuring costs and is included as part of capital spending shown in Table 1.8.

Ministry Budget Plan Highlights

The following is a summary of major ministry changes during the next three years. Additional information is found in the individual ministry service plans.

Ministry of Advanced Education

Ministry of Advanced Education's budget is increased by $8 million in 2002/03 to provide for the cost of Medical Services Plan premium increases in the post-secondary sector. Given that the ministry's budget is otherwise held constant, it has developed strategies to manage wage, demand and inflation pressures. The ministry will:

- Implement a new tuition fee policy which allows post-secondary institutions to set tuition rates.
- Provide institutions with tools to increase productivity in the post-secondary system, for example by removing class size restrictions (estimated savings: $37 million over three years).
- Reorganize the ministry to focus on achieving New Era commitments and to move to results-based management (estimated savings: $14 million over three years).
- Eliminate the Youth Community Action and the Student Summer Works programs (estimated savings: $13 million over three years).
- Eliminate the Skills for Employment program and redirecting those funds to other programs and priorities (estimated reallocation: $13 million over three years).

TABLE 1.6

EXPENDITURE BY MINISTRY
CONSOLIDATED REVENUE FUND

	July 30 Update 2001/02[1]	Revised Forecast 2001/02[1]	Budget Estimate 2002/03	Plan 2003/04	Plan 2004/05
	($ millions)				
Advanced Education	1,892	1,892	1,900	1,900	1,900
Education	4,842	4,842	4,861	4,861	4,861
Health Planning	26	25	17	16	16
Health Services	9,516	9,746	10,205	10,206	10,206
Subtotal	16,276	16,505	16,983	16,983	16,983
Office of the Premier	56	56	50	43	36
Agriculture, Food and Fisheries	66	66	64	58	45
Attorney General	564	564	556	497	481
Children and Family Development	1,553	1,544	1,558	1,394	1,191
Community, Aboriginal and Women's Services[2]	559	559	555	533	478
Competition, Science and Enterprise	69	69	54	50	45
Energy and Mines	67	67	50	45	40
Finance	29	27	27	24	18
BC Family Bonus	120	105	91	85	78
Forests	538	506	475	392	350
Forest Investment (FRBC)	294	361	146	136	126
Human Resources	1,937	1,929	1,789	1,550	1,356
Management Services	65	65	48	39	34
Provincial Revenue	50	49	45	45	44
Public Safety and Solicitor General	498	497	506	475	441
Skills Development and Labour	30	30	29	26	19
Sustainable Resource Management[3]	133	130	118	99	75
Transportation[4]	673	671	739	725	681
Water, Land and Air Protection[5]	214	212	162	144	127
Subtotal	7,515	7,507	7,062	6,360	5,665
Total Ministries and Premier's Office[6]	23,791	24,012	24,045	23,343	22,648
Legislation	43	43	39	39	39
Officers of the Legislature	52	52	32	23	20
Management of Public Funds and Debt	823	798	920	1,085	1,182
Government Restructuring (All Ministries)	95	95	230	165	—
Contingencies (All Ministries) and New Programs	225[7]	225	210	210	210
Other Appropriations[8]	73	72	80	70	29
Skeena Cellulose Inc. Assistance	—	340	—	—	—
TOTAL EXPENDITURE	**25,102**	**25,637**	**25,556**	**24,935**	**24,128**

[1] Figures for 2001/02 have been restated to conform to the 2002/03 presentation. For comparison purposes, CRF expenditure has been increased (budget: $294 million; revised forecast: $361 million) to include Forest Renewal BC expenditures. CRF expenditure has been increased by $58 million to reflect a reclassification of the amortization of unfunded pension liabilities as part of joint trusteeship which is shown as a separate adjustment to the summary accounts bottom line. There is no effect on the summary accounts deficit.

[2] Also includes funding for protected local government grants, housing grants, and one-time funding of $10 million in 2001/02 for the Millennium Fund/university endowment lands. In the January 17, 2002 announcements, these programs were presented separately.

[3] Also includes one-time funding of $15 million in 2001/02 for parkland acquisition and Central Coast land use plans. In the January 17, 2002 announcements, these programs were presented separately.

[4] Also includes funding for highway operations and public transit. In the January 17, 2002 announcements, these programs were presented separately.

[5] Also includes one-time funding of $47 million in 2001/02 for Britannia Mine and the grizzly bear moratorium. In the January 17, 2002 announcements, these programs were presented separately.

[6] Comparable to spending plans announced on January 17, 2002.

[7] Restated to allocate portions to other programs for comparison purposes.

[8] Includes various boards, commissions, other votes and special accounts.

TABLE 1.6

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[7] Restated to allocate portions to other programs for comparison purposes.

[8] Includes various boards, commissions, other votes and special accounts.

Ministry of Agriculture, Food and Fisheries

The ministry will:

- Move from prescriptive regulations to an outcome-based regulatory model.
- Increase private-sector responsibility for management of farming risks.
- Eliminate Fisheries Renewal BC by March 31, 2002 and Okanagan Valley Tree Fruit Authority by March 31, 2004.
- Focus on food safety and quality.
- Commence harmonization of federal/provincial regulatory processes.

Ministry of Attorney General

The ministry will:

- Close 24 staffed courthouses through improved court utilization, expanded use of technology and innovative processes in the court system; reform of by-law and traffic offences; and provision of out-of-court resolutions (estimated savings: $9 million over three years).
- Redesign the delivery model for legal aid to focus on areas of major need including criminal, young offender, and child protection (estimated savings: $34 million over three years).

Treaty Negotiations Office

The new Economic Measures Program ($10 million per year for three years) will contribute to an improved investment climate in the province and provide economic opportunities for First Nations.

The treaty negotiations strategy will change from comprehensive treaty making to incremental treaty making.

After a referendum on treaty negotiations, the office will implement the results and develop negotiation options for dealing with the land question.

A major reorganization of the office, along with reductions in transfers and elimination of funding for advisory bodies, will result in estimated savings of $6 million.

Ministry of Children and Family Development

The ministry will:

- Implement new governance models and community-based service delivery systems for children and family services, services for aboriginal communities, and services for adults with developmental disabilities (estimated one-time cost: $24 million over 2002/03 and 2003/04).
- Build family and community capacity to protect children in order to maintain them with their families where possible (estimated cost: $10 million over three years).
- Maintain children within their family unit and move children in care from contracted care to foster care (estimated savings: $146 million over three years).

- Introduce a range of funding options for families with developmentally-disabled adults to better meet their needs, including individualized and direct funding (estimated cost: $7 million over three years).
- Move developmentally disabled adults from contracted group homes to family care homes and establish specialized, cost-effective residential resources for developmentally-disabled adults with complex needs (estimated savings: $90 million over three years).
- Target programs to clients with the greatest needs through standardizing and restricting eligibility criteria and introducing new rate structures for some services (estimated savings: $5 million over three years).
- Streamline ministry operations consistent with the new regionalized, community-based service delivery system (estimated savings: $29 million over three years).

Ministry of Community, Aboriginal and Women's Services

The ministry will:

- Move from provincial control to local autonomy by enacting a Community Charter.
- Move from direct delivery of programs and services by provincial government employees, to delivery by communities and third parties.
- Move from prescriptive regulations to objective-based codes and standards.

Ministry of Competition, Science and Enterprise

The ministry will:

- Remove barriers to business (12-per-cent reduction of regulatory burden in 2002/03, with additional reductions of at least 21 per cent by 2004/05).
- Eliminate business subsidies.
- Market BC to increase private sector investment and increase economic growth in key strategic sectors.
- Encourage innovation and the development and transfer of new knowledge.

Ministry of Education

The ministry's budget is increased by $19 million in 2002/03 to provide for the cost of Medical Services Plan increases in the K-12 sector. Given that the ministry's budget is otherwise held constant, it has developed strategies to manage wage, demand and inflation pressures. Its key strategy is to provide school districts with tools to increase productivity in the K-12 system, for example through more flexible class size limits and by eliminating mandatory non-enrolling teacher ratios (estimated savings: $306 million over three years).

Ministry of Energy and Mines

The ministry will:

- Increase investment in energy and mineral resource development in British Columbia (e.g. double oil and gas production by 2011).

- Move from process-based, prescriptive regulations to results-based regulations and performance-based compliance and enforcement models.
- Move from a multi-agency permitting process to a single-window, full authority permitting regime.

Ministry of Finance

The ministry will:

- Introduce a new *Company Act* and move to full electronic filing of incorporations and corporate registrations, that will enhance accessibility for the business community while also significantly reducing administrative costs.
- Expand government's risk management and self-insurance programs to the broader public sector and introduce the enterprise-wide risk management program to create up to $35 million per year in incremental savings by 2004/05.
- Implement a new capital management framework and take lead responsibility for sponsorship of private sector investment in public infrastructure.

Ministry of Forests

The ministry will:

- Transition to forest management under a defined forest area management model.
- Develop and implement a results-based Forest Practices Code.
- Implement a market-based pricing system.
- Implement a new compliance and enforcement regime that addresses a new results-based code, new pricing system and changes to the tenure system.
- Expand and maintain markets for BC forest products.
- Implement a cost-shared forest fire protection model.
- Increase effectiveness of the Small Business Forest Enterprise Program (to be renamed the Timber Sales Program) and put the program on a commercial footing.
- Devolve responsibility for non-industrial forest road and bridge maintenance, discretionary forest health and silviculture activities, and maintenance of forest recreation sites and trails.
- Eliminate Forest Renewal BC and establish the Forest Investment Vote to provide for the operation and management of forest investments and international marketing.

Ministry of Health Services and Ministry of Health Planning

The health ministries' budgets increase by $685 million in 2002/03, primarily to fund high-demand health professionals and workers, partially offset by a $5-million reduction due to one-time funding in 2001/02. Of this, $365 million is added to address compensation increases in the regional health sector and to

provide for the cost of Medical Services Plan premium increases in the regional health sector, and $320 million is added for the estimated cost of the interim award in the arbitration of the Working Agreement with the British Columbia Medical Association. Given that the ministries' budgets are otherwise held constant, they have developed strategies to manage additional wage, demand and inflation pressures. The ministries will:

- Consolidate and restructure the regional health authorities (estimated savings: $70 million over three years).
- Increase opportunities for private sector involvement in health capital projects and non-medical health services, and reduce the number of health capital projects (estimated savings: $140 million over three years).
- Clearly define the ministries' relationship with the health authorities in performance contracts and move to outcome/results-based performance measures (estimated savings: $260 million over three years).
- Shift costs for services not mandated under the *Canada Health Act* from government to consumers and/or private health insurers (estimated savings: $70 million over three years).
- Implement interim changes to Pharmacare deductibles and co-payments for the seniors and universal plans (January 2002), replace both plans with a single income-tested plan (January 2003), and delist miscellaneous drugs (estimated savings: $405 million over three years).

A topic box on federal funding of health care is provided in this chapter.

Ministry of Human Resources

The ministry will:

- Implement new income assistance programs focused on moving people into employment. Changes include revised eligibility, work search and employment program participation requirements, and revised limits on the length of time that employable individuals can receive assistance. Programs will be tailored to support persons with disabilities seeking employment (estimated savings: $549 million over three years).
- Target resources to clients with the greatest need consistent with the ministry's mandate for employment, training and assistance to those in need. Focus will be on core programs that support clients' efforts to achieve independence (estimated savings: $7 million over three years due to changes to supplementary assistance, employability criteria, and program restructuring).
- Implement an alternate service delivery mechanism by developing more effective practices to make service delivery to the public more efficient and cost effective (estimated savings: $26 million over three years).

Ministry of Management Services

The ministry will plan and implement a shared services program for the delivery of certain transactional and administrative services across government (e.g. accounts payable, travel voucher processing, etc.).

The Public Service Employee Relations Commission is responsible for the delivery of government's three-year workforce adjustment program designed to reduce the size of the direct public service.

Ministry of Provincial Revenue

The ministry will increase its focus on revenue and accounts receivable collection and enforcement activities.

The ministry is expected to generate an additional $35 million in net revenue to the province by 2004/05.

Ministry of Public Safety and Solicitor General

The ministry will:

- Focus additional resources in 2002/03 and 2003/04 on infrastructure for police services that will substantially improve policing capabilities and efficiencies (estimated one-time costs: $28 million over the period 2002/03 to 2003/04).
- Move to risk-based supervision and proven rehabilitation programs in the corrections branch and consolidate facilities for greater efficiencies (estimated savings: $44 million over three years).
- Eliminate pain and suffering awards and increase efficiencies in the victim services program (estimated savings: $10 million over three years).

Ministry of Skills Development and Labour

The ministry will:

- Phase-out industrial adjustment services and labour market policy activities by the end of 2002/03 (estimated savings: $4 million annually).
- Reduce the scope of Employment Standards Branch activities with a corresponding reduction in resources of about one third (estimated savings: $3 million by 2004/05).
- Continue a review of Workers' Compensation Review Board services (budget at almost $23 million).

Ministry of Sustainable Resource Management

The ministry will:

- Reduce the number of regulatory requirements to streamline decision-making and increase opportunities for economic development. Additionally, the ministry will move to an improved regulatory framework that uses performance-based standards.
- Use Web-based systems to improve access to land and resource information, and enable clients to submit land titles, land surveys, applications for licences, and fee payments electronically.
- Place greater reliance on partnerships to provide public and private sector clients with standardized land, resource and geographical data.

- Reduce the range of services provided by regional land title offices.
- Restructure the Land Reserve Commission to be more regionally responsive to community needs. The Agricultural Land Reserve will continue to be administered through the Land Reserve Commission. The Forest Land Reserve will be phased-out and replaced in part through the establishment of a working forest land base.

Ministry of Transportation

The ministry will:

- Fund new or expanded highway infrastructure through private investment.
- Transfer to the private sector all activities that can be delivered more effectively. Services being considered include inland ferries, sign manufacturing, pavement marking, and radio and electrical systems maintenance.
- Focus resources on protecting the safety and condition of the highway system. Funding to improve northern and rural roads will increase $10 million per year.

Ministry of Water, Land and Air Protection

The ministry will:

- Move to a shared stewardship model.
- Change from using prescriptive approaches using prohibitions and controls, to setting appropriate results-based environmental standards, and ensuring those standards are met.
- Put more emphasis on planning functions — such as developing clear environmental standards and performance expectations, and expanding partnerships — and on checking functions — such as monitoring and public reporting, and ensuring positive compliance with expectations.

The ministry will have fewer staff and resources directed to:

- Permitting of low- and medium-risk pollution sources (protection will be addressed through codes of practice and other authorization tools).
- Directly protecting habitat and fish and wildlife species where risks are relatively low.
- Providing camping and recreational services such as hunting and angling opportunities where recreational use is low or costs cannot be recovered.

1.7 — Crown Corporation and Agency Service Plan Highlights

Overview

Crown corporation finances are forecast to improve significantly from a combined net loss of $574 million in 2001/02. In 2002/03, combined net losses are projected to fall to $132 million and by 2004/05 they will be reduced to a $97-million loss. The forecast is based on the service plans approved by the Boards of Directors of the various Crown corporations (see Table 1.7).

- *Taxpayer-supported Crown corporations and agencies* — a $212-million combined net loss in 2004/05 is $118 million higher than in 2001/02. This is largely due to accumulated highway amortization and debt interest costs for the BC Transportation Financing Authority. Excluding these costs, the corporations show a combined operating net income of almost $90 million in 2004/05 due to improvements in BC Ferry Corporation and BC Buildings Corporation.

  The forecast assumes that operations of Forest Renewal BC, Fisheries Renewal BC and Duke Point Developments Ltd. will be wound up effective 2001/02.

- *Self-supported commercial Crown corporations* — combined net income (after adjustments) will total $115 million in 2004/05, a significant improvement from a $480-million loss in 2001/02. A significant part of the loss in 2001/02 reflects some one-time restructuring costs necessary to help Crown corporations achieve their three-year service plans.

  The government is continuing its core services review of the operations of Crown corporations. As well, there are number of other initiatives, such as the Energy Policy Review, that will likely affect the future of Crown corporation activities. As these reviews are completed, the service plans will be updated to reflect new directions and decisions of the Boards of Directors.

  Details of the forecast are shown in Table 1.7 and in the three-year service plans of Crown corporations. Key assumptions used in the forecasts are shown in Appendix Table A11. They do not incorporate the effect of new revenue measures introduced in this budget. The following provides a summary of operating assumptions and changes for selected Crown corporations over the next three years.

Selected Crown Corporation Service Plan Highlights

BC Buildings Corporation

The corporation plans to:

- Optimize savings for customers by rationalizing accommodation and property infrastructure related to each customer's new business direction.

- Restructure and streamline operations to enhance performance and implement an enhanced shared services model.
- Dispose of assets strategically.
- Increase focus on health and education sectors.

BC Ferry Corporation

The corporation plans to:

- Enhance catering revenue through branding and retail initiatives that include expansion of the White Spot food services initiative to other routes.
- Operate at break-even or better with average tariff increases no greater than the rate of inflation.
- Complete a sale of the *PacifiCats* by the end of 2003/04.
- Implement a capital management program to reduce operating costs by replacing aging vessels with larger, standarized vessels and encourage more private sector participation through public/private partnerships.

BC Hydro

The corporation plans to:

- Reduce costs for operations, maintenance and administration 5.6 per cent by 2004/05 while ensuring maintenance spending remains sufficient to ensure system reliability.
- Explore private-sector interest in joint-venture partnership arrangements or other options to ensure the most efficient and effective delivery of support services.
- Participate in discussions with other utilities regarding the structure, ownership and management of electricity transmission in the Pacific Northwest to ensure continued access to U.S. energy markets.
- Ensure efficient use of energy by developing programs to promote demand-side management for targeted energy savings of 240 Gwh, 450 Gwh, and 500 Gwh over the next three years, respectively.

Liquor Distribution Branch

The branch plans to:

- Continue to work to reduce operating expenses through streamlining processes while updating and maintaining technology and information systems.
- Continue to enhance customer service through improvements to the retail store network.
- Complete the new retail management system project to further improve supply chain management and operational labour efficiencies.

TABLE 1.7
CROWN CORPORATIONS AND AGENCIES[1]

	2001/02 July 30 Update[2]	2001/02 Revised Forecast[2]	Budget Estimate 2002/03	Plan 2003/04	Plan 2004/05
			($ millions)		
Taxpayer-supported:					
British Columbia Buildings Corporation	40	38	34	43	56
British Columbia Ferry Corporation	3	17	18	25	21
BC Transportation Financing Authority	—	1	(56)	(77)	(102)
552513 British Columbia Ltd. (Skeena Cellulose Inc.)	(53)	(142)	—	—	—
Other	(7)	(15)	3	6	10
	(17)	(101)	(3)	(3)	(15)
Less: Contributions paid to CRF	(18)	(22)	(19)	(17)	(23)
Other accounting adjustments[3]	(191)	(191)	(184)	(178)	(174)
Add: Skeena assistance	—	220	—	—	—
Total taxpayer-supported	(226)	(94)	(206)	(198)	(212)
Self-supported commercial:					
British Columbia Hydro and Power Authority (BC Hydro)	420	395	345	365	360
Liquor Distribution Branch	616	627	640	650	650
British Columbia Lottery Corporation	585	600	660	715	765
British Columbia Railway Company	1	(118)	14	52	74
Insurance Corporation of British Columbia	35	(258)	(10)	22	51
Other	3	—	5	3	4
	1,660	1,246	1,654	1,807	1,904
Less: Contributions paid to CRF	(1,393)	(1,402)	(1,401)	(1,506)	(1,545)
Accounting adjustments:					
— Transfer of BC Hydro earnings to (from) rate stabilization account	(45)	(195)	5	35	(75)
— Other accounting adjustments[4]	(156)	(129)	(184)	(162)	(169)
Total self-supported commercial	66	(480)	74	174	115
Total net contribution (loss) of Crown corporations and agencies	(160)	(574)	(132)	(24)	(97)

[1] Based on information provided by Crown corporations and agencies. These forecasts may be revised as a result of operating developments over the rest of the year, as well as decisions taken by the government and the Boards of Directors of the various Crown corporations and agencies.
[2] Restated to exclude operating results of Forest Renewal BC, which is to be dissolved effective 2001/02. These results are included as part of revenues and expenditures to the CRF for comparisons to future years.
[3] Primarily includes adjustments to record the amortization of the cost of highways transferred to the BC Transportation Financing Authority in 1998/99.
[4] Includes transfers of British Columbia Lottery Corporation revenue to charities and local governments, and adjustments to the Insurance Corporation of British Columbia and the British Columbia Railway Company to adjust their reporting results from a calendar year basis to government's fiscal reporting period ending March 31.

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BC Lottery Corporation

The corporation plans to:

- Continue to develop the lottery retail network through product enhancements and improvements to distribution channels.
- Develop a joint strategic business plan with the bingo industry to build a strong and healthy industry, and to increase bingo revenues to charities.
- Target to reduce operating expenses from a projected 5.8 per cent of sales in 2001/02, to 5 per cent of sales in 2002/03 and 4.7 per cent in 2003/04.
- Within government's current gaming policy, continue to develop the casino business through improvements to facilities, products and services.

BC Rail

The corporation plans to:

- Develop new traffic so that 2004 revenues match or exceed 2001.
- Reduce operating expenses and eliminate lines of business that do not yield positive net contributions by rationalizing the core rail system and discontinuing non-core transportation businesses and services.
- Evaluate new opportunities with an objective of a 25-per-cent return on capital invested.
- Negotiate a commercially viable contract with Prince Rupert Port Authority for Fairview Terminal and prepare for renewal of the Vancouver Port Authority water lot lease in 2002.

ICBC

The corporation plans to:

- Manage claims costs and premium revenues to reduce the ratio of claims and claims-related costs to insurance premium dollars earned to 89 per cent in 2004, from 94 per cent in 2001.
- Manage operating and administration costs to reduce the ratio of non-claims costs to insurance premium dollars earned to 17.5 per cent in 2004, from 19 per cent in 2001.
- Manage the general expense ratio (costs for administration and internal costs compared to premium dollars earned) to 11 per cent by 2004, from 12.7 per cent in 2001.

1.8 — Capital Spending

Overview

Capital spending is needed to maintain the province's existing asset base, to replace ageing infrastructure and to meet the needs of a changing population. Financing to build schools, hospitals, long-term care facilities, roads, dams and other forms of provincial infrastructure is largely met through borrowed funds and is a major component of provincial debt.

Over the next three years, combined capital spending of the government and taxpayer-supported and commercial Crown corporations will fall to $2.2 billion. This decline reflects two principle changes:

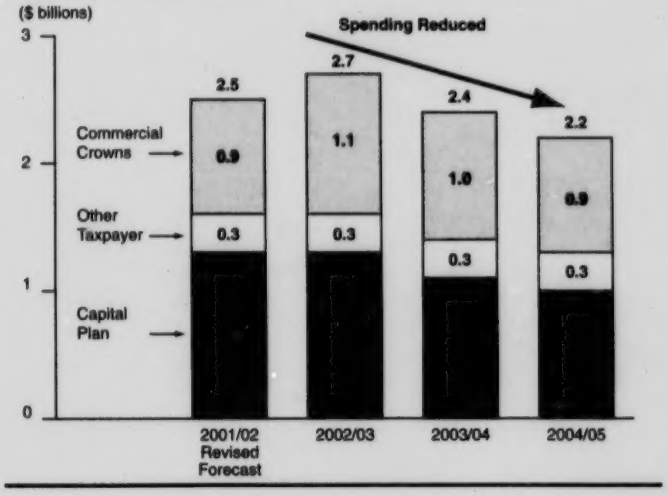
- introduction of a new capital management framework to balance the need for provincial infrastructure with the province's financial ability; and
- completion of the *SkyTrain* Millenium line and the Surrey City Centre development.

In 2002/03, total capital spending will increase by $237 million to total $2.7 billion. The increase mainly reflects higher commercial capital spending by BC Hydro. After 2002/03, total capital spending will be reduced $534 million by 2004/05.

Taxpayer-supported capital spending includes schools, hospitals, universities and transportation projects covered in the government's capital plan, plus minor capital purchases by ministries and other minor taxpayer-supported agencies.

Commercial Crown corporation capital spending includes projects undertaken by BC Hydro, BC Rail, ICBC and for Columbia Basin power projects.

Chart 1.11 Capital Spending



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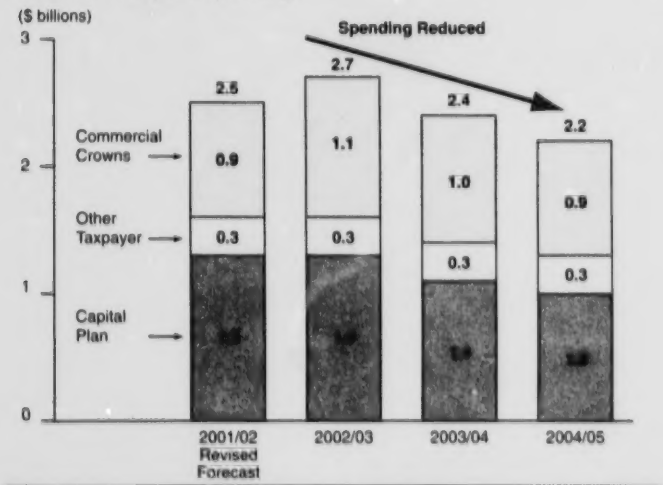

Significant changes in capital spending over the next three years include:

- reduced spending for health facilities;
- reduced spending for major road projects;
- reduced spending by Rapid Transit Project 2000 with the completion of the *SkyTrain* Millenium line;
- reduced spending by ICBC with the completion of the Surrey City Centre development; and
- increased spending to replace aging ferries.

Further detail on capital spending over the three years is shown in Table 1.8 and in ministry and Crown corporation service plans.

TABLE 1.8
CAPITAL EXPENDITURES

	2001/02					
	July 30 Update	Revised Forecast	Budget Estimate 2002/03	Plan 2003/04	Plan 2004/05	Change[1] From 2001/02
	($ millions)					(per cent)
Taxpayer-supported						
Capital plan[2]						
Education	428	402	466	398	399	(0.7)
Health	274	200	273	152	125	(37.5)
BC Transportation Financing Authority	331	331	254	221	217	(34.4)
British Columbia Ferry Corporation	89	68	103	187	164	141.2
Rapid Transit Project 2000	309	231	143	5	—	(100.0)
Other[3]	93	75	99	94	81	8.0
Net capital plan	1,524	1,307	1,338	1,057	986	(24.6)
Other taxpayer-supported						
Government operating (ministries)	293	233	301	269	249	6.9
Other[4]	65	54	30	42	20	(63.0)
Total taxpayer-supported	**1,882**	**1,594**	**1,669**	**1,368**	**1,255**	(21.3)
Self-supported commercial						
British Columbia Hydro and Power Authority	600	535	745	790	745	39.3
British Columbia Railway Company	72	73	66	125	65	(11.0)
Columbia River power projects[5]	141	128	86	66	65	(49.2)
Insurance Corporation of British Columbia[6]	151	107	116	30	30	(72.0)
British Columbia Lottery Corporation	26	26	26	26	26	—
Liquor Distribution Branch	31	30	22	11	10	(66.7)
Total self-supported commercial	**1,021**	**899**	**1,061**	**1,048**	**941**	4.7
Total capital expenditures	**2,903**	**2,493**	**2,730**	**2,416**	**2,196**	(11.9)

[1] Percentage change between the 2004/05 plan and the 2001/02 revised forecast.
[2] Net of expenditures by hospital districts for cost-shared projects and capital spending on behalf of, and recovered from, the Greater Vancouver Transportation Authority *(TransLink)*.
[3] British Columbia Buildings Corporation, Ministry of Attorney General, Ministry of Public Safety and Solicitor General, Ministry of Children and Family Development and British Columbia Transit.
[4] Includes British Columbia Housing Management Commission and Provincial Rental Housing Corporation (net of construction costs recoverable from non-profit societies).
[5] Columbia Power Corporation and Columbia Basin Trust.
[6] Includes ICBC Properties Ltd.

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- reduced spending by Rapid Transit Project 2000 with the completion of the *SkyTrain* Millenium line;
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[4] Includes British Columbia Housing Management Commission and Provincial Rental Housing Corporation (net of construction costs recoverable from non-profit societies).
[5] Columbia Power Corporation and Columbia Basin Trust.
[6] Includes ICBC Properties Ltd.

Starting in 2001/02, some major changes are being introduced that will affect how capital expenditures are being planned, financed and implemented. This will assist the government to achieve the capital and operating targets assumed in the fiscal plan. Further details are provided in a topic box.

As required under the *Budget Transparency and Accountability Act*, significant capital projects with multi-year budgets totalling $50 million or more are shown in Table 1.9. Annual allocations of the full budget for these projects are included as part of the provincial government's capital spending shown in Table 1.8.

By 2004/05, total spending on these major projects will decline $572 million from the $734 million forecast for 2001/02, reflecting the completion of projects. By March 31, 2005, $4.6 billion will have been spent on major capital projects including:

- $2.9 billion for major transportation capital projects including the Vancouver Island Highway and the *SkyTrain* extension. All of the transportation projects are forecast to be completed by March 31, 2005 except for the Nisga'a Highway (expected to be completed by Fall 2005);
- $484 million for major health facilities including Vancouver General Hospital, the Royal Jubilee Hospital in Victoria, and the Surrey Memorial Hospital. All of the health facility projects are forecast to be completed by March 31, 2005 except for the Fraser Valley Health Centre/Eastern Fraser Valley Cancer Centre (expected to be completed by March 2007);
- $1 billion for power generation capital projects by BC Hydro and the Arrow Lakes Power Company. All of the power generation projects are forecast to be completed by March 31, 2005; and
- $253 million for the acquisition and renovation of Surrey City Centre development by ICBC Properties Ltd. (a unit of the Insurance Corporation of British Columbia). This project is forecast to be completed during 2002/03.

TABLE 1.9
CAPITAL PROJECTS GREATER THAN $50 MILLION

Project[1]	Start Date	Forecast Completion Date	Estimated Cumulative Spending at Mar.31, 2002[2]	+ Spending 2002/03	+ Spending 2003/04	+ Spending 2004/05	= Cumulative Spending at Mar.31, 2005	Total Project Budget[3]	Total Project Forecast[3]
			($ millions)						
Transportation									
Vancouver Island Highway	1991	Dec. 2002	1,252	12	—	—	1,264	1,308[4]	1,264
Lion's Gate Bridge	May 1998	Dec. 2001[5]	124	1	—	—	125	125	125
Port Mann Bridge/Cape Horn Interchange	Aug. 1998	March 2002	61	—	—	—	61	61	61
SkyTrain Extension — Phase 1	Sept. 1998	Dec. 2002	1,088	79	—	—	1,167	1,167	1,167
SkyTrain Systems Upgrades[6]	Oct. 1999	June 2002	78	12	—	—	90	94	90
SkyTrain Fleet Expansion[6]	Oct. 1998	March 2002	68	—	—	—	68	68	68
Nisga'a Highway	Aug. 1998	Fall 2005	18	11	9	8	46	52	52
BC Rail — acquisition of oriented-strand board cars	Spring 2003	Winter 2003	—	—	52	—	52	52	52
Total transportation			2,689	115	61	8	2,873	2,927	2,879
Health Facilities[7]									
Vancouver General Hospital, Jim Pattison Pavilion	Sept. 2000	Fall 2004[8]	39	53	42	22	156	156	156
Royal Jubilee Hospital (Victoria)	Aug. 1999	April 2002	100	16	—	—	116	116	116
Surrey Memorial Hospital	July 1998	Nov. 2001	77	—	—	—	77	77	77
Prince George Regional Hospital	Spring 2001	March 2004	18	21	11	—	50	50	50
Fraser Valley Health Centre/Eastern Fraser Valley Cancer Centre[9]	April 2001	March 2007	1	6	17	61	85	211	211
Total health facilities			235	96	70	83	484	610	610
Power Generation									
British Columbia Hydro and Power Authority									
— Stave Falls Replacement	Feb. 1995	2003[10]	140	4	—	—	144	181	144
— Burrard Upgrade (including six SCRs)[11]	June 1993	March 2003	177	28	7	—	212	222	212
— Island Generation Project[12]	April 2000[13]	Nov. 2004	24	48	88	20	180	180	180
— Georgia Strait Pipeline Crossing[12]	April 2000[13]	Oct.2004	18	6	57	51	132	131	132
— Addition of Fourth Generating Unit at Seven Mile Dam	Feb. 1995[13]	March 2003	41	46	10	—	97	97	97
Arrow Lakes Power Company[14]									
— Arrow Lakes Generating Station	Feb. 1999	Dec. 2002	262	8	—	—	270	270	270
Total power generation			662	140	162	71	1,035	1,081	1,035
Other									
ICBC Properties Ltd. — Surrey City Centre	Sept. 1999	Jan. 2003	167	86	—	—	253	253	253

[1] Only projects that have been approved by Treasury Board are included in this table. Ministry service plans may include projects that have not yet received final approval.
[2] Total expenditures since commencement of each project.
[3] Represents sum of annual budgeted expenditures to complete each project.
[4] Adjusted for inflation. Budget in 1993 dollars is $1.2 billion.
[5] Final paving on the bridge will occur in the spring of 2002, but the project was substantially completed in December 2001.
[6] Funds for these projects are fully recoverable from the Greater Vancouver Transportation Authority (*TransLink*). In previous reports, the systems upgrades project did not appear in the major capital projects list.
[7] The Nelson Health Campus, previously included on the major projects list, has been removed pending further review.
[8] Project components were completed starting in December 2000 and will continue over the next four years.
[9] Previously only the Fraser Valley Health Centre was reported in the major projects list. Amounts have been revised to include the Eastern Fraser Valley Cancer Centre. Alternative procurement options are also under review for this project.
[10] In service as of December 1999. Additional costs will be incurred, but the project is substantially completed.
[11] Burrard generating station upgrade includes installation of selective catalytic reduction (SCRs) systems on all 6 generating units. SCRs reduce emissions from the units and are required to meet the air quality standards for the Greater Vancouver Regional District.
[12] Joint ventures with private sector partners. Amounts shown represent BC Hydro's 50 per cent share of the costs; however, only partial funding has been approved to date.
[13] Initial planning, preliminary field work and engineering design costs. Physical construction will begin at a later date.
[14] A joint venture of the Columbia Power Corporation and the Columbia Basin Trust.

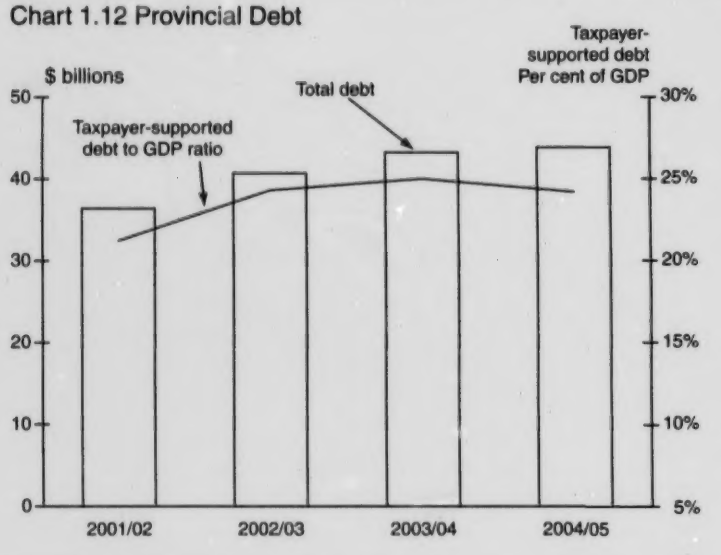
1.9 — Provincial Debt

Overview

Under the fiscal plan, provincial debt is projected to increase from $36.4 billion to $43.9 billion over the next three years primarily due to the cumulative effect of annual deficits and capital spending. However, as the deficit is reduced to zero, the rate of annual debt increases will slow.

The ratio of taxpayer-supported debt, which excludes commercial Crown corporations and other self-supported debt, to GDP is a key measure often used by financial analysts and investors to assess a province's ability to repay debt. Based on the budget economic forecast, taxpayer-supported debt as a percentage of provincial GDP will increase to 25 per cent in 2003/04. With economic recovery underway, and elimination of the deficit, the ratio is forecast to decline to 24.2 per cent by 2004/05.

Chart 1.12 Provincial Debt



Taxpayer-supported debt includes debt for government operating and capital purposes, and debt of Crown corporations and agencies that require a subsidy from the provincial government.

Over the next three years, taxpayer-supported debt will increase $7 billion due to the annual operating and capital requirements under the fiscal plan. However after 2002/03, annual debt increases will gradually be reduced in part due to the declining deficit each year as well as lower capital debt requirements resulting from the completion of projects and the new capital management framework (see topic box on New Approach to Capital Planning).

Self-supported debt includes debt of commercial Crown corporations and the warehouse borrowing program. Commercial Crown corporation debt is generally used only to finance capital since enough revenue is earned through the sale of services at commercial rates to cover operating expenses, interest costs, and debt repayments. Warehouse borrowing is used to take advantage of market opportunities to borrow in advance of requirements and remains invested until it is needed by the government or its Crown corporations and agencies.

TABLE 1.10
PROVINCIAL DEBT SUMMARY[1]

As at March 31	Actual 2001	2002 July 30 Update	2002 Revised Forecast	Budget Estimate 2003	Plan 2004	Plan 2005
	($ millions unless otherwise indicated)					
Taxpayer-supported debt						
Provincial government direct operating[2, 3]	12,113	14,142	13,876	**17,182**	18,897	18,646
Education facilities	5,263	5,605	5,609	**6,012**	6,356	6,709
Health facilities	1,780	2,021	1,950	**2,199**	2,331	2,439
Highways, ferries and public transit	4,191	4,784	4,651	**5,060**	5,246	5,530
Other[4]	1,650	1,668	1,284	**1,148**	1,087	1,037
Total taxpayer-supported debt	**24,997**	**28,220**	**27,370**	**31,601**	**33,917**	**34,361**
Self-supported debt						
Commercial Crown corporations and agencies	7,570	7,458	7,915	**8,377**	8,608	8,791
Warehouse borrowing program	1,312	600	1,100	**—**	—	—
Total self-supported debt	**8,882**	**8,058**	**9,015**	**8,377**	**8,608**	**8,791**
Forecast borrowing allowance	**—**	**500**	**—**	**750[5]**	**750[5]**	**750[5]**
Total provincial debt	**33,879**	**36,778**	**36,385**	**40,728**	**43,275**	**43,902**
Total provincial debt as a per cent of GDP	26.6%	28.2%	28.2%	**31.3%**	31.9%	30.9%
Taxpayer-supported debt as a per cent of GDP	19.6%	21.7%	21.2%	**24.3%**	25.0%	24.2%
Taxpayer-supported debt per capita ($)	6,159	6,885	6,682	**7,655**	8,132	8,142
Taxpayer-supported interest bite (cents per dollar of revenue)	6.8	7.4	7.1	**8.1**	8.6	8.6

[1] Debt is after deduction of sinking funds and unamortized discounts, and excludes accrued interest. Government direct and fiscal agency accrued interest is reported in the government's accounts as an accounts payable.
[2] A change in accounting policy has resulted in vehicle leases being recorded as capital costs rather than operating expenditures. Government operating debt has been restated to include the vehicle lease obligations of $44 million in 2000/01.
[3] By March 31, 2002, Skeena Cellulose Inc. will have either been sold or declared bankrupt. In either case, debt of 552513 British Columbia Ltd. (Skeena Cellulose Inc.), will have been assumed by the provincial government ($261 million) and by the minority shareholder ($94 million).
[4] Includes government services Crown corporations and agencies, other fiscal agency loans, student assistance loans, loan guarantees to agricultural producers, guarantees issued under economic development and home mortgage assistance programs, and loan guarantee provisions.
[5] Reflects the effect over the plan of a one-time debt increase in 2002/03 due to the inclusion of a borrowing allowance. As it is unknown as to which agency would require this debt in 2002/03, the borrowing allowance is shown as a separate item over the plan.

By the end of 2004/05, self-supported debt will fall $224 million, due to a drawdown of the remaining $1.1 billion in the warehouse borrowing program in 2002/03, partially offset by increased commercial debt for BC Hydro and Columbia River power projects.

The forecast assumes a borrowing allowance of $750 million in 2002/03 to mirror the forecast allowance used in the summary accounts forecast. Should the government not require this allowance, projected debt levels under the fiscal plan would be $750 million lower for 2002/03 and each subsequent year (see Table 1.10).

Self-supported debt includes debt of commercial Crown corporations and the warehouse borrowing program. Commercial Crown corporation debt is generally used only to finance capital since enough revenue is earned through the sale of services at commercial rates to cover operating expenses, interest costs, and debt repayments. Warehouse borrowing is used to take advantage of market opportunities to borrow in advance of requirements and remains invested until it is needed by the government or its Crown corporations and agencies.

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The forecast assumes a borrowing allowance of $750 million in 2002/03 to mirror the forecast allowance used in the summary accounts forecast. Should the government not require this allowance, projected debt levels under the fiscal plan would be $750 million lower for 2002/03 and each subsequent year (see Table 1.10).

In 2002/03 taxpayer-supported debt is forecast to increase to 24.3 per cent of GDP and to 25.0 per cent of GDP in 2003/04. In 2004/05, it is expected to decline to 24.2 per cent of GDP. Taxpayer-supported interest costs are expected to increase to 8.6 cents per dollar of revenue in 2003/04 and remain unchanged in 2004/05.

Further details on the debt outstanding for the government, Crown corporations and agencies are provided in Appendix Tables A14 and A15.

TABLE 1.11
PROVINCIAL FINANCING

	Debt[1] Outstanding at March 31, 2001	Debt Change 2001/02	Forecast Debt[1] Outstanding at March 31, 2002	2002/03 Transactions			Estimated Debt[1] Outstanding at March 31, 2003
				New Borrowing[2]	Retirement Provision[3]	Net Change	
	($ millions)						
Taxpayer-supported debt							
Provincial government direct operating[4]	12,113	1,763	13,876	4,679	1,373	3,306	17,182
Education facilities	5,263	346	5,609	580	177	403	6,012
Health facilities	1,780	170	1,950	377	128	249	2,199
Highways, ferries and public transit	4,191	460	4,651	679	270	409	5,060
Other debt[5]	1,650	(366)	1,284	40	176	(136)	1,148
Total taxpayer-supported debt	**24,997**	**2,373**	**27,370**	**6,355**	**2,124**	**4,231**	**31,601**
Self-supported debt							
Commercial Crown corporations and agencies	7,570	345	7,915	1,038	576	462	8,377
Warehouse borrowing program	1,312	(212)	1,100	(1,100)	—	(1,100)	—
Total self-supported debt	**8,882**	**133**	**9,015**	**(62)**	**576**	**(638)**	**8,377**
Forecast borrowing allowance	—	—	—	750	—	750	750
Total provincial debt	**33,879**	**2,506**	**36,385**	**7,043**	**2,700**	**4,343**	**40,728**

[1] Debt is after deduction of sinking funds and unamortized discounts, and excludes accrued interest. Government direct and fiscal agency accrued interest is reported in the government's accounts as an accounts payable.
[2] New long-term borrowing plus net change in short-term debt.
[3] Sinking fund contributions, sinking fund earnings and net maturities of long-term debt (after deduction of sinking fund balances for maturing issues).
[4] A change in accounting policy has resulted in vehicle leases being recorded as capital costs rather than operating expenditures. Government operating debt has been restated to include the vehicle lease obligations of $44 million in 2000/01.
[5] Includes government services Crown corporations and agencies, other fiscal agency loans, student assistance loans, loan guarantees to agricultural producers, guarantees issued under economic development and home mortgage assistance programs, and loan guarantee provisions.

In 2002/03, provincial debt will increase $4.3 billion to total $40.7 billion. This change reflects:

- a $4.2-billion increase in taxpayer-supported debt to finance operating and net capital requirements of the government and taxpayer-supported Crown corporations and agencies;
- a $462-million increase in commercial Crown corporation debt, largely due to increased borrowing for BC Hydro and for Columbia River power projects;
- the inclusion of a $750-million borrowing allowance for unforeseen changes (mirrors the summary accounts forecast allowance); and
- a drawdown of $1.1 billion from the warehouse borrowing program.

Details of the change in debt in 2002/03 are provided in Table 1.11 and in the Summary Accounts Balance Sheet (Appendix Table A13).

1.10 — Fiscal Plan Risks

Information has been provided in the *Budget and Fiscal Plan* on the major economic and policy assumptions underpinning the fiscal plan. These are accompanied by sensitivity estimates in order to provide an assessment of how individual fiscal forecasts could change as a result of changes to major assumptions.

Overall, the government considers the assumptions presented in the fiscal plan to be in the middle of the range of reasonable expectations, and that in aggregate they result in the most likely forecast of the summary accounts results for each of the years presented in the fiscal plan.

Like all financial plans, there are uncertainties that present risks to the forecast. Some risks, such as higher-than-expected commodity prices, may potentially result in better-than-expected revenue for the government and some of its Crown corporations. Other risks, such as drier-than-expected weather, could result in higher-than-expected forest fire-fighting costs.

Risks can also sometimes be offsetting. For example, in 2001/02 the effect on government revenue of lower-than-expected energy prices was partially offset by higher-than-expected income tax assessments for the previous year.

CRF Revenue

Changes to the revenue forecast can result from a combination of factors. These include changes in economic conditions, policy changes implemented mid-year, and other unpredictable events such as changing weather patterns, commodity prices, foreign trade restrictions, labour disruptions and delays in receiving current federal information on the income tax bases.

The revenue forecast contained in the fiscal plan is based on the budget economic forecast detailed in Chapter 2. Details on major assumptions and sensitivities resulting from changes to those assumptions are shown in Appendix Table A9.

Highlights of significant uncertainties:

- Timing and strength of the global economic recovery could affect strength in revenue. A rebound could occur earlier or later than assumed in the forecast (see Chapter 2). In addition, domestic growth could be higher or lower than assumed in the forecast.
- Final assessments of personal and corporation income tax for 2001 could be higher or lower than assumed. In addition, the national corporation income tax base could be higher or lower than assumed.

- A correction of a recent federal error in the calculation of personal income tax remittances to BC has been factored into the revenue forecasts for 2001/02 and onwards. As the amount and resolution of errors relating to 1999 and prior years are under verification and legal review, the forecast does not assume a reduction in revenue in respect of those years.
- Favourable or unfavourable resolution of the countervail softwood lumber dispute could affect forest, personal and corporation income taxes and other revenues. As negotiations remain ongoing, further details on assumptions are not disclosed.
- Energy, forest and other commodity prices could be higher or lower than assumed.

Single changes or combinations of changes in assumptions can affect government revenue in different and sometimes unexpected ways. Depending on specific assumptions, a 1-per-cent change in provincial nominal GDP (the main driver of provincial revenue) could result in an overall change in revenue of approximately $200 – $300 million (excluding commodity price impacts).

CRF Spending

The spending forecast contained in the fiscal plan is based on ministry spending plans and strategies. Details on major assumptions and sensitivities resulting from changes to those assumptions are shown in Appendix Table A10 and in ministry service plans.

The government and its ministries have several options for dealing with major financial risks, should they arise. Ministries may take action to mitigate the impact through specific or general cost reduction measures or reductions in service levels. In addition, the fiscal plan includes an annual $210-million contingency reserve for use by the Minister of Finance in managing the overall spending plan.

Highlights of spending risks:

Compensation

With the exception of funding for the interim arbitration award for the British Columbia Medical Association and for the regional health sector, the fiscal plan does not provide incremental funding for compensation settlements currently in effect or to be negotiated within the fiscal plan timeframe. During the 2002/03 through 2004/05 period, virtually all collective agreements expire. Collective agreements expiring over the next three years will be settled under a new bargaining mandate.

Demand-driven Programs

The government funds a number of demand-driven programs such as Pharmacare, K-12 education, student financial assistance and income assistance.

The nature of demand-driven programs is that eligible clients receive service. The budgets for these programs reflect the best estimate of demand and other factors such as labour costs and price inflation. If demand is higher than estimated, this will result in a spending pressure to be managed.

Public Sector Program Delivery

The vast majority of government funded services are delivered through third party delivery agencies that provide programs such as acute and continuing health care, K-12 education, post-secondary education, and community social services. All of these sectors face cost pressures in the form of program demand, non-wage inflation and compensation increases.

The provincial government recently implemented legislative changes to provide public sector delivery agencies with greater flexibility to determine how they will deliver services. The lower cost structure made possible by the recent legislative changes and upcoming accountability contracts with public sector delivery agencies is reflected in the 2002/03 budget and the three-year fiscal plan. If public-sector delivery agencies are unable to achieve the estimated savings, budgetary pressures could arise.

Treaty Negotiations

The government is committed to negotiating affordable, working treaties with First Nations that provide certainty, finality and equality. A treaty referendum will give British Columbians a say in treaty negotiations and revitalize the treaty process. Outcomes of negotiations could affect both the economic outlook and fiscal plan.

Restructuring Costs

Ministry restructuring costs are based on preliminary estimates. Restructuring is a complex and detailed undertaking that will take some time to plan and implement. The fiscal plan includes $550 million in non-recurring operating and capital costs related to ministry restructuring. This estimate is based on assumptions around the number of people expected to leave government and the average cost of their departure, assumptions around reduced requirements for office space, and other costs such as systems changes.

As ministries implement their restructuring plans, better estimates of actual costs will become available. This could result in restructuring costs being higher or lower than assumed in the fiscal plan.

Catastrophes and Disasters

The spending plans for the Ministries of Forests, Public Safety and Solicitor General, and Water, Land and Air Protection include amounts to fight forest fires and other emergencies such as floods and blizzards. These amounts assume normal to moderate conditions and severity of costs, based on a ten-year historical average of actual spending.

Express provisions are not included for catastrophes or disasters beyond the amounts already identified in ministry service plans. Costs of such unforeseen events may also affect other ministry programs.

Pending Litigation

The three-year spending plan for the Ministry of Attorney General contains provisions for settlements under the *Crown Proceeding Act* based on estimates of expected claims and related costs of settlements likely to be incurred. These estimates are based on a historical ten-year average of actual spending.

Litigation developments may occur that are beyond the assumptions used in the plan (for example, higher-than-expected volumes or size of claims and the timing of settlements). These developments may also affect expenditures in other ministries.

Recoveries Within Ministry Budgets

A number of ministry spending plans assume that a portion of expenditures will be recovered from other agencies. The spending plan assumes that budgeted recoveries will be fully realized.

One-time Write-downs and Other Adjustments

The overall spending forecast does not make allowance for unusual or extraordinary items other than the amount provided in the Contingencies vote or in ministry spending plans.

Other Accounting Issues

Government has committed to fully adopt generally accepted accounting principles (GAAP) by 2004/05. This means potentially changing government accounting policies in three areas (see the Compliance With Generally Accepted Accounting Principles topic box):

- expansion of the reporting entity to include elements of the schools, post-secondary institutions and health authorities sectors (SUCH);
- writing off prepaid capital advances when they are advanced; and
- writing off tangible capital assets when they are acquired or built.

Recommendations relating to SUCH and tangible capital assets are currently under review by the Canadian Institute of Chartered Accountants (CICA) and may change before the end of 2004/05. These recommendations may affect the fiscal plan.

The fiscal plan includes a $100-million loss provision to reflect the estimated impact of including the SUCH sector in 2004/05. As reliable information on operating results for the SUCH sector is unavailable, an estimate of non-provincially-guaranteed SUCH sector debt is not included in the plan.

Including SUCH would largely remove the prepaid capital advance issue. The plan assumes that GAAP recommendations regarding tangible capital assets will be changed by 2004/05, to conform with the government's current accounting practice. If the CICA does not change its recommendations around tangible capital assets, this would adversely affect the government's bottom line because of a requirement to expense capital assets.

Crown Corporations and Agencies

Crown corporations and agencies have provided their own forecasts that were used to prepare the fiscal plan, as well as their own statements of assumptions. Details of major forecast assumptions are shown in Appendix Table A11. The various boards of those corporations and agencies have included these forecasts, along with further details on assumptions and risks, in the service plans being released with the budget.

The fiscal plan does not assume or make allowance for unusual or extraordinary adjustments other than those noted in the assumptions provided by the Crown corporations and agencies. Factors such as weather, electricity prices, fuel costs, accident trends, interest and exchange rates, or pending litigation could significantly change their financial forecasts.

The government is continuing its core services review of the operations of Crown corporations and agencies. As well, there are number of other initiatives, such as the Energy Policy Review, that could affect the future of Crown corporation and agency activities. As these reviews are completed, the service plans will be annually updated to reflect new directions and decisions of the Boards of Directors.

New decisions or directions by the Boards of Directors may result in additional costs due to restructuring, valuation allowances and asset writedowns, or gains and losses on disposals of businesses or assets.

Capital

The capital spending projections assumed in the fiscal plan do not include potential projects such as:

- event and transportation infrastructure related to a successful bid for the 2010 Olympic Winter Games;
- expansion of the *SkyTrain* line to Port Moody/Coquitlam and west of Vancouver City College; and
- the Vancouver Convention and Exhibition Centre.

The provincial share of the total costs for these projects has not been estimated because the role of the province and the scope and structure of these projects have not been determined.

The capital spending forecasts assumed in the fiscal plan may be affected by various factors including:

- weather and geotechnical conditions causing project delays;
- changes in market conditions including inflation, borrowing costs and wage settlements;
- scope, design and technology changes;
- building code changes;

- school class sizes;
- municipal requirements including zoning amendments;
- environmental impact studies;
- cost-sharing agreements with other jurisdictions; and
- results of public-private sector partnerships.

As the financial impact of these uncertainties is difficult to estimate and because changes in one direction are often offset by changes in another direction, a monetary value is not provided in the fiscal plan.

Forecast Allowance

In 2002/03, the government will continue to apply a forecast allowance to the summary accounts bottom-line, to account for risks to revenue, expenditure and Crown corporation forecasts and to increase the likelihood of meeting the forecast targets established in the fiscal plan.

A forecast allowance of $750 million — over three per cent of revenues — is included in the 2002/03 budget. This forecast allowance increases the expected deficit from the government's most likely forecast of $3.65 billion in 2002/03 to a more conservative forecast of $4.4 billion.

A $750-million borrowing allowance has also been included in the provincial debt forecast for 2002/03, to mirror the summary accounts forecast allowance.

Forecast allowances are not included in the fiscal plan for 2003/04 and 2004/05. Over these two years, the government will take further action as necessary and will incorporate annual forecast allowances with the budgets for those years based on a risk assessment at that time.

1.11 — Eliminating the Deficit — Summary

The starting point for the three-year fiscal plan is based on the revised forecast for 2001/02. Excluding the one-time joint trusteeship gain, the deficit for 2001/02 is projected at $3.4 billion, an increase of $0.6 billion since the July 30 Update. Further details on the 2001/02 revised forecast are presented in Chapter 3.

Table 1.12 provides a summary of how the fiscal plan has evolved since the July 30 Update presented last year. It incorporates a number of developments in 2001/02, such as low energy revenues, the recent physicians' interim arbitration award and the resultant decisions to raise revenues. It also includes the results of ministry and Crown corporation service plans.

The table itemizes the main changes expected over the next three years. The most significant changes are a recovery in revenues after 2002/03 as the economic recovery takes hold, and the decline in spending by 2004/05 due to the effect of ministry spending plans.

TABLE 1.12
SUMMARY OF YEARLY BUDGET CHANGES — THREE-YEAR FISCAL PLAN

	July 30 Update 2001/02	Budget Estimate 2002/03	Plan 2003/04	Plan 2004/05
	($ billions rounded)			
Starting summary accounts deficit (excluding joint trusteeship)[1]	**(2.8)**	**(3.4)**	**(4.4)**	**(1.8)**
Changes during the year:				
CRF revenue:				
— energy revenues	(0.7)	(0.2)	0.2	0.1
— taxes and other revenues (mainly economic related)	0.6	(0.8)	1.0	1.0
— additional effect of July 30 Update tax cuts	—	(0.7)	—	—
— increased sales tax, tobacco tax and MSP premiums to provide compensation funding to health authorities and address physician compensation	—	0.8	—	—
	(0.1)	**(0.9)**	**1.2**	**1.1**
CRF spending:				
— One-time Skeena Cellulose Inc. writedowns, etc.[2]	(0.3)	0.3	—	—
— Additional Health spending due to physicians' arbitration	(0.2)	(0.1)	—	—
— Compensation funding to health authorities	—	(0.4)	—	—
— Further reductions to non-health and education ministry budgets	—	0.5	0.7	0.7
— Other changes (debt interest, restructuring, etc.)	—	(0.2)	(0.1)	0.1
	(0.5)	**0.1**	**0.6**	**0.8**
Crown corporations and agencies:				
— ICBC — one-time restructuring, valuations and other changes[2]	(0.3)	0.3	—	0.1
— BC Hydro — mainly economic changes	(0.2)	0.2	—	(0.1)
— BC Rail — one-time restructuring, etc.[2]	(0.1)	0.1	—	0.1
— Other Crown corporation changes	0.2	(0.1)	0.1	(0.1)
	(0.4)	**0.5**	**0.1**	**—**
Subtotal	**(1.0)**	**(0.3)**	**1.9**	**1.9**
Expanded entity (to follow GAAP)	**—**	**—**	**—**	**(0.1)**
Forecast allowance[2]	**0.4**	**(0.7)**	**0.7**	**—**
Total changes	**(0.6)**	**(1.0)**	**2.6**	**1.8**
Ending summary accounts deficit (excluding joint trusteeship)[3]	**(3.4)**	**(4.4)**	**(1.8)**	**—**

[1] The starting point for each year is the previous year's ending deficit.
[2] One-time changes result in an offsetting change in the next year.
[3] The ending point for each year is the starting deficit plus total revenue, spending, Crown corporation, and other changes for each year.

2002/03 HEALTH COMPENSATION INCREASES

For the past 15 years, the Government of BC and the BC Medical Association have settled compensation issues through negotiation. In February 2000, the two parties settled a Framework Memorandum to renew their relationship. This agreement included binding arbitration to resolve disputes.

Since December 2000, the parties have been working on a new agreement. After months of negotiations, the parties proceeded to mediation in July. Mediation ended in November when the parties agreed to proceed to arbitration.

On February 8, 2002, arbitrator Allan McEachern delivered his interim award on some, but not all, of the outstanding issues between the parties. The interim award gives BC physicians an estimated $307-million (16.2%) increase in 2001/02. When annualized through 2002/03, it means a $392-million (20.6%) increase.

This annualized increase for doctors is more than the total compensation increase for the entire regionalized health sector in 2002/03. While the estimated cost of the arbitrator award is $392 million for doctors (including volume increases of $60 million), the total compensation increase for the regionalized health sector is $325 million, including a $164-million increase for the province's 26,000 nurses.

The following table illustrates the costs described above and the annual cost of the compensation increases in the regionalized health sector. The table also shows the effect of the revenue measures implemented to fund these costs in 2002/03.

Over the 2001/02 to 2004/05 period, compensation settlements in the health care sector will cost over $1 billion annually. This includes almost $300 million for nurses and almost $400 million for doctors.

2002/03 Health Compensation Increases and Offsetting Revenue Measures

$millions

Compensation Increases		Revenue Measures	
Doctors[1]	392	MSP fees	358
Nurses (2002/03 incremental cost)	164	Sales tax	250
Paramedicals/Other (2002/03 incremental cost)	161	Tobacco tax	150
Associated payroll costs[2]	52		758[3]
	769		

[1] Based on preliminary estimates of the cost of the first phase of arbitration.
[2] Funding provided to the Ministries of Health Services, Education and Advanced Education for the cost of employer paid MSP premiums for service delivery agencies.
[3] $685 million allocated to Ministry of Health Services, $73 million added to the contingencies vote for health sector compensation costs.

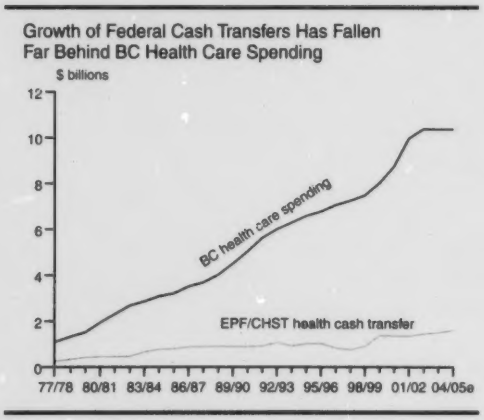
FEDERAL FUNDING OF HEALTH CARE IN BRITISH COLUMBIA

One of the major fiscal problems British Columbia has been confronted with over the years is the increasing gap between the cost of funding its commitments for health programming and the amount of federal assistance provided through cash transfers. Indeed, all provinces have been negatively affected by this gap.

In the formative years of providing federal transfers for major social programs, the federal government was a full funding partner of the provinces, sharing costs on a 50:50 basis.

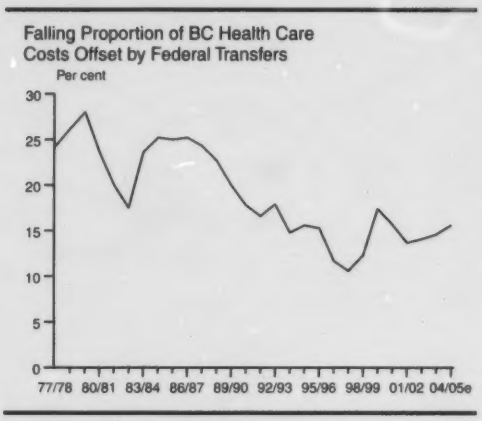
A new type of arrangement — block funding — was introduced in 1977/78. Henceforth, the federal transfer for health care and education would be uncoupled from provincial costs. Instead, it was set to grow in line with growth in the national economy. Unfortunately, only five years after the introduction of block funding, the federal government began to implement a multi-year series of measures designed to reduce its financial commitment.

Years of restraint in transfers culminated in the introduction of the Canada Health and Social Transfer (CHST) in 1996/97. The CHST combined funding for health care, education and social services into a single transfer, and reduced the overall level of federal support. By 1997/98, the value of the federal transfer to all provinces had fallen by 33 per cent, to $12.5 billion, compared to 1994/95.



The preceding chart, illustrating the 25 year block funding period, reveals the weakness of the growth of the cash transfer in relation to BC's strongly growing health care costs.

With its 1999 budget, the federal government began to increase the value of the CHST transfer beyond the $12.5 billion level to which it had dropped. This culminated in the five year arrangement offered to the provinces in September 2000.



As the above chart shows, the new funding offers BC only a small respite from the long erosion in federal support for health care.

It will be a difficult task for BC, as for other provinces, to continue sustaining its health care system without a genuine renewal of the funding partnership with the federal government. Health care is BC's number one priority and it is the BC government's number one budget priority. It is time for the federal government to show that health care is its number one priority by paying its fair share.

GOVERNMENT RESTRUCTURING

The government's three-year fiscal plan includes budget and planning targets for each ministry. All ministry spending, except for health and education, will be reduced by an average of 25 per cent.

Ministries will need to restructure their programs and activities to achieve their budgets and planning targets. Over three years, government is forecasting a full-time equivalent (FTE) reduction of 11,800. Voluntary departure and early retirement incentive programs have been established to help achieve these reductions.

A provision of $550 million over three years has been made for restructuring — $490 million for operating costs and a further $60 million to address capital related requirements.

Given the magnitude of the restructuring that will take place over the next several years, these cost estimates are preliminary. Accordingly, the numbers will be refined as plans become more definitive and specific costs are identified.

No funds have been set aside for the 2004/05 fiscal year. If needed, any costs will be absorbed in ministry budgets.

Restructuring charges include the cost of employee termination benefits and related severance costs, facility closure costs, costs to consolidate and relocate operations and other costs associated with the government's approved plan for restructuring. These costs are recorded in the year in which the restructuring decisions are finalized. Most restructuring charges are generally recovered after one year due to the lower overall operating cost for government.

Workforce Adjustment Strategy

The workforce adjustment strategy announced in November 2001 is aimed at aligning provincial government staff resources with core service needs, re-profiling the public service and helping to reduce the province's deficit. Restructuring costs associated with this strategy include the recognition of costs associated with the voluntary departure and early retirement incentive programs as well as employee severance costs, such as termination pay and salary during the notice period for affected employees. A provision of $215 million has been made for these costs.

Accommodation Restructuring Initiative

The accommodation restructuring initiative addresses the upcoming changes in ministry program delivery needs across government. Restructuring costs associated with this initiative primarily include the costs associated with reductions and/or changes in demand for accommodation. A provision of $200 million — $180 million for operating costs and $20 million for capital requirements — has been made for these costs.

Other Restructuring Costs

The remaining $135 million in restructuring costs — $95 million for operating costs and $40 million for capital requirements — will be used to address other costs associated with the government's approved plan for restructuring. Examples include costs for new systems development, losses related to asset impairments and disposals and penalties incurred to cancel existing contractual obligations.

	2001/02	2002/03	2003/04	2004/05	Total
			($ millions)		
Funding Categories					
Operating					
Workforce Adjustment Strategy	85	65	65	0	215
Accommodation Restructuring Initiative	0	135	45	0	180
Other Restructuring Costs	10	30	55	0	95
	95	230	165	0	490
Capital					
Accommodation Restructuring Initiative	0	15	5	0	20
Other Restructuring Costs	0	20	20	0	40
	0	35	25	0	60
Total Restructuring Costs	95	265	190	0	550

NEW APPROACH TO CAPITAL PLANNING

Investment in hospitals, schools, highways and other infrastructure is essential to the delivery of needed public services, and the province's economic growth. Investment in these assets has traditionally been at the expense of the province, and has contributed to overall provincial debt.

In order to help bridge the gap between the need for provincial infrastructure investment and the province's financial capacity, government is introducing some important changes that will affect how capital expenditures are planned, financed and implemented.

First, starting this year, agencies are required to accommodate debt service and amortization costs associated with capital expenditures within their operating spending targets. In the past, these costs were built into ministry budgets. In developing their capital plans, agencies must now consider not only what they need with respect to capital, but also what they can afford in terms of debt service and amortization, as well as funding to operate and maintain new facilities.

Second, recognizing the budget pressures faced by agencies and their on-going need for capital, agencies are being asked to explore new ways of funding and managing infrastructure projects in order to ensure the most effective and efficient delivery of public services. A broad range of alternative service delivery and public-private partnership opportunities will be considered.

Recognizing this practical and economic imperative, a Capital Asset Management Framework will be introduced in 2002 that has two key objectives:

- to establish best practices in capital asset management across the public sector; and
- to help ministries, health authorities, school districts and other public agencies find efficient and innovative ways to meet British Columbia's infrastructure needs.

The framework will require public sector agencies to challenge service delivery assumptions and explore a full range of options for effectively and efficiently meeting public needs. For example, as a first step in capital planning, agencies will ask:

- Is there another way to meet our service delivery needs that could avoid new capital spending? For example, is it more cost-effective to purchase services instead of building infrastructure?
- Is there a way to better manage or use existing assets that could reduce the need for additional capital expenditures?
- Is there a way to share the cost and risk of capital acquisition with, for example, a private sector partner?

The framework will also ensure the necessary checks and balances are in place to provide accountability, protect the public interest and effectively manage risk through all phases of capital projects. The following principles will be applied:

- *Sound Financial and Risk Management:* Capital spending will be managed within financial limits, and all capital projects will be supported by rigorous business case analysis.
- *Strong Accountability:* Agencies responsible for capital management will measure their performance and report results to the government and the public.
- *Emphasis on Service Delivery:* Agencies will challenge traditional service delivery assumptions and explore a full range of options for effectively and efficiently meeting public needs.
- *Value for Taxpayers' Dollars:* Capital decisions will be based on practical, project-specific assessments of a full range of options to achieve the best value for money while protecting the public interest.

- *Protecting the Public Interest:* Agencies will ensure their capital decisions safeguard the public interest by thoroughly considering factors such as public health, safety, environmental protection, accessibility, equity, privacy, security and reliability.
- *Competition and Transparency:* Services will be procured through competitive, open, and transparent processes.

Benefits of the New Approach

Government's new approach to capital planning and budgeting sets a new standard for the way the government acquires capital assets. It paves the way for a high-quality infrastructure system that meets people's needs and delivers on government's commitment to make the best use of every tax dollar.

The new framework will allow BC to develop a world-class capability that can be exported to other jurisdictions. This new approach will attract private sector investment in the province's infrastructure while creating a 'home grown' capability that will allow local business to export their expertise to other jurisdictions.

COMPLIANCE WITH GENERALLY ACCEPTED ACCOUNTING PRINCIPLES

The *Budget Transparency and Accountability Amendment Act, 2001* requires government to fully implement generally accepted accounting principles (GAAP) by April 1, 2004.

The Public Sector Accounting Board (PSAB) of the Canadian Institute of Chartered Accountants provides clarification and guidance with respect to the application of GAAP to senior governments in Canada. In practice, there are areas where PSAB recommendations are under review, or where application is varied among provincial governments.

British Columbia's financial statements and reports comply with PSAB/GAAP in all material ways with the following exceptions:

1 Reporting Entity

PSAB recommends that the government reporting entity include all organizations that are accountable for the administration of their financial affairs and resources either to a minister of the government or directly to the legislature and are owned or controlled by the government. An organization's governance structure is a significant factor in the determination of that organization's inclusion or exclusion.

Government's financial statements do not include school districts, universities and institutes, colleges (and other advanced education institutions), and health authorities (SUCH). The Auditor General has qualified his opinion on the government's audited Summary Financial Statements for a number of years arguing that, in his opinion, these entities meet the criteria for inclusion.

In the recent past, the government's bottom line would typically have improved slightly if these entities had been included. In 2000/01 the improvement would have been $98 million.

Inclusion of SUCH in the 2000/01 government entity would have also added some $5.3 billion worth of assets and $2.4 billion worth of liabilities to the government's financial statements.

2 Prepaid Capital Advances

PSAB recommends that governments write off amounts paid to organizations such as school districts and health authorities, to build or acquire capital assets such as schools, hospitals and diagnostic equipment, in the year in which they are paid.

The province records these payments as assets and amortizes them over the life of the underlying assets. The Auditor General supported adoption of this accounting treatment.

The 2000/01 *Public Accounts* includes approximately $6.9 billion in cumulative prepaid capital advances. In the same year the government paid some $750 million in capital advances and recorded approximately $360 million in related amortization expense.

Complying with PSAB would have resulted in the full write off of the advances and the reversal of the amortization expense — a net reduction in the bottom line of about $390 million.

Complying with PSAB would have also required the government to write off the cumulative amount of prepaid capital advances. If the SUCH sector was included in the reporting entity, most of the prepaid capital advances would be replaced by SUCH sector assets.

3 Tangible Capital Assets

PSAB currently recommends that governments fully write off tangible capital assets such as buildings, equipment, and highways in the year in which they are acquired or built.

The government uses private sector accounting practices for tangible capital assets — the assets are recorded on the balance sheet and written off (amortized) over their useful life. The Auditor General supports this accounting treatment. The 2000/01 *Public Accounts* includes approximately $11 billion in cumulative tangible capital assets.

In 2000/01 the government acquired some $1.2 billion in tangible capital assets and

recorded approximately $500 million in amortization expense. Complying with PSAB would have resulted in the full write off of the acquired assets and the reversal of the amortization expense — a net deterioration in the operating statement bottom line of about $700 million.

PSAB Developments

There are many significant policy and implementation issues that will have to be resolved as government moves toward fully adopting PSAB recommendations. One of the most challenging is the definition of the government reporting entity. PSAB has established a task force to review the current recommendations and, accordingly, changes may be made in the not too distant future.

PSAB is also reviewing its recommendations with respect to capitalization of tangible capital assets. Future changes may be forthcoming in this area as well.

Government Implementation Plan

The government has established an accounting policy advisory committee to provide advice to Treasury Board on the full implementation of PSAB/GAAP. At least two members of the committee must be from a recognized professional accounting body, but employees of the government reporting entity and members of the Legislative Assembly may not be on the committee.

In addition, the Office of the Comptroller General will be working with Treasury Board Staff, ministries, Crown corporations and other organizations such as school districts, health authorities, universities and colleges to develop strategies for implementing PSAB recommendations.

Since the government is required to fully adopt GAAP/PSAB recommendations by 2004/05, the three-year fiscal plan includes an estimate of the bottom line impact of incorporating the SUCH sector into the government reporting entity in 2004/05.

The impact of fully writing off capital assets in the year in which they are acquired/built has not been factored into the fiscal plan, since the PSAB recommendations are being reviewed and may be changed to agree with the province's policies.

Fully adopting PSAB recommendations represents a significant challenge in terms of gathering information for budgets, three-year fiscal plans, quarterly reports and the Public Accounts. It will also require public agencies included in the government entity to adapt their financial reporting procedures. While presenting significant challenges, this step will maintain British Columbia at the forefront of Canadian public sector accounting practices and disclosure.

MINISTERIAL ACCOUNTABILITY FOR FISCAL TARGETS

The *Balanced Budget and Ministerial Accountability Act* (BBMAA) addresses fiscal responsibility by legislating balanced budgets beginning in 2004/05. The act also provides for greater ministerial accountability by imposing penalties if spending targets and, in some cases, performance targets are not met. The act comes into effect on April 1, 2002.

The BBMAA works in concert with the *Budget Transparency and Accountability Act* (BTAA). The BTAA legislates the requirement for service plans and annual service plan reports. Ministries and government organizations must publish these documents, which set out their goals and specific objectives and performance measures, and later report on results achieved. The BTAA also requires ministers to sign accountability statements in service plans confirming they are responsible for the basis of the plans and for achieving the specific objectives.

The BBMAA requires balanced budgets beginning in 2004/05, prohibiting deficits thereafter. Deficits are permitted in 2002/03 and 2003/04. However, if the actual financial results are worse than the original budgeted amounts, salary penalties will apply both to Cabinet as a whole and to individual ministers.

For the next two years, the provisions of the act work in the following manner:

- Each minister's Cabinet salary[1] is reduced by 20 per cent, effective April 1 of each year.
- This reduction may then be restored, in whole or in part, based on the following conditions:
  - — 10 per cent is restored if the government's bottom line result meets or beats the deficit target for that year.
  - — The other 10 per cent is restored to individual ministers if the actual spending in their ministry (including other appropriations under their responsibility) is less than or equal to the target set out in the main *Estimates* for that year.

For the 2004/05 fiscal year and thereafter, the first 10-per-cent reduction is restored if there is not a deficit and if the actual surplus is at least 50 per cent of the budgeted amount.

As before, the other 10-per-cent reduction is restored for individual ministers if they remain on or under their spending budgets, as set out in each year's main *Estimates*.

There are two unique cases, one for the Minister of Provincial Revenue, and one for ministers of state. They are:

- The second half of the 20-per-cent reduction is restored for the Minister of Provincial Revenue if the actual incremental revenue received in the year from designated sources as a result of audit and collection activity meets or beats the target specified by Treasury Board regulation each year.
- The second half of the 20-per-cent reduction is restored for ministers of state if specific performance targets, documented in their respective ministry service plan accountability statements and specified in regulation, are achieved. For example, in 2002/03 the Minister of State for Deregulation is to achieve a 12-per-cent reduction in the regulation burden, and the Minister of State for Early Childhood Development is to establish urban Aboriginal early childhood development programs in 18 communities.

The financial results for a given year will be published in the Public Accounts and performance results will be published in annual service plan reports produced by each ministry. These documents will be made public by August each year. At that time, if the conditions of the BBMAA have been met, the portions of ministers' salaries that had been withheld will be reimbursed.

[1] The Cabinet portion of salaries is $45,000 for the Premier, $39,000 for Ministers and $25,000 for Ministers of State.

Overview[1]

The U.S. economy is expected to recover in 2002 and Canada is assumed to follow, although there are still questions about the strength of the North American near-term recovery. In 2003 and beyond, the U.S. and Canadian economies are forecast to lead global economic growth.

TABLE 2.1
BRITISH COLUMBIA ECONOMIC OUTLOOK

	2001	2002	2003	2004	2005	2006
	Per cent change in real GDP					
Ministry of Finance Economic Forecast	0.7e	0.6	2.8	3.1	3.0	3.1
Economic Forecast Council[1]	0.7	0.7	3.0	3.3	3.3	na

e: Ministry of Finance estimate
[1] The Economic Forecast Council is an average of the sixteen members' forecasts. The Council provided an average forecast for 2004 and 2005 and did not provide a forecast for 2006.

Based on these and other external growth assumptions of the province's major trading partners, the most likely outcome for the British Columbia economy is to grow 0.6 per cent in 2002 then pick up to 2.8 per cent in 2003. The average forecast of the British Columbia Economic Forecast Council was slightly higher, expecting growth of 0.7 per cent in 2002 and 3.0 per cent in 2003 (see topic box). In 2004 through 2006, the British Columbia economy is expected to grow about 3.0 per cent per year reflecting stronger economic growth in the province's trading partners, higher commodity prices and stronger consumer and business sectors. Over the medium-term, investment in the province is forecast to increase as tax cuts contribute to improved business confidence and opportunities.

As with all forecasts, the economic outlook presented here has risks attached to it, both on the upside and downside. These risks may affect the near-term, the medium-term, or both. Some of these risks include the global recovery, the war on terrorism and financial crises in Japan and Argentina. Given these risks, a number of possible paths exist for the North American and world economies, and these suggest a range of possibilities for the British Columbia economy as well.

[1] This report incorporates information available as of February 6, 2002. All annual and quarterly references are for the calendar year.

The Ministry of Finance budget forecast is the most likely outcome based on current knowledge and judgement, and a consistent set of assumptions about how the global economy will evolve. An assessment of the forecast risks needs to take account of the range of possibilities.

To illustrate the possibilities surrounding the budget forecast, two other economic scenarios are presented, one that assumes slower growth, and the other based on a quick rebound in the North American economy. Although events will inevitably vary somewhat, the budget outlook reflects the most likely forecast.

TABLE 2.2
BRITISH COLUMBIA ECONOMIC OUTLOOK SCENARIOS

	2001	2002	2003	2004	2005	2006
	Per cent change in real GDP					
Slow Recovery Scenario	0.7e	0.1	2.0	2.1	2.1	2.2
Rebound and Recovery Scenario	0.7e	1.6	3.8	3.7	3.6	3.6

e: Ministry of Finance estimate

The Outlook for the External Environment

During the last six months of 2001, global growth estimates for 2001 and forecasts for 2002 were continually revised downward. The Organization for Economic Cooperation and Development recently reported that the global economy slipped into its first recession in 20 years, with output shrinking in the last two quarters of 2001 and likely remaining weak in the first half of 2002. While an upswing in the global economy is not expected until 2003, the U.S. economy is expected to recover in 2002.

The National Bureau of Economic Research estimated that the U.S. economy entered a recession in March 2001. The U.S. economy (British Columbia's largest trading partner) contracted at a 1.3 per cent annual rate in the third quarter. Preliminary results indicate that the U.S. economy grew at a 0.2 per cent annual rate in the fourth quarter, with consumer and government spending contributing to growth, and partly offsetting a drawdown of inventories.

The U.S. recession in 2001 was largely due to a decline in business investment. There was considerable slack in the manufacturing sector as unused production capacity reached historical highs. However, the consumer sector continued to spend, aided in part by deep discounting by motor vehicle dealers and low mortgage rates which supported the housing sector. This effectively moved forward some consumer spending so that coming out of the recession, the economy may not have the typical amount of pent-up consumer demand to help drive economic growth. This should result in a slower economic recovery this year.

While low interest rates boosted consumer spending, fiscal policy was also aimed at improving the U.S. economy. The U.S. government reduced taxes by $70 billion, effective January 1, 2002, to help the economy over the medium-term.

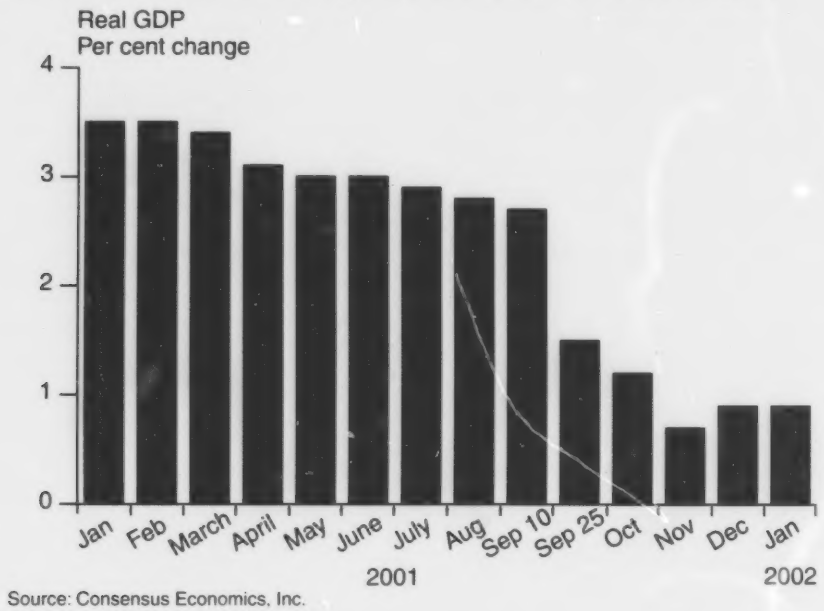
The Canadian economy (British Columbia's second largest trading partner) followed the U.S. economy into the slowdown, although the data suggests the downturn in Canada could be shorter, and not as deep. Consumer and business confidence in Canada was not impacted by the events of September 11th to the same extent as in the U.S. Canadian real GDP contracted at a 0.8 per cent annual rate in the third quarter. While fourth quarter data will not be available until February 28th, retail sales and housing data indicate growth is expected to be in line with the final quarter in the U.S. Retail sales and housing starts were strong through the end of 2001, although incentive-driven motor vehicle sales inflated November's retail sales data.

Overseas, Japan continues to struggle with chronic structural problems in its financial sector, and combined with the U.S.-led global slowdown, the economy entered its fourth recession in a decade. Real GDP in Japan contracted at a 2.2 per cent annual rate in the third quarter. In 2001, the economy shrank an estimated 0.4 per cent. The share of British Columbia's merchandise trade with Japan has fallen during the past decade as the Japanese economy has floundered. In 2000, 14.3 per cent of British Columbia's goods exports were destined for Japan, compared with 27.8 per cent ten years earlier.

The German economy, Europe's traditional growth engine, grew only 0.6 per cent in 2001 as the global slowdown hurt exports and hampered investment. The economy stalled in mid-2001 and continued to slow for the rest of the year, aggravated by the fallout from the September 11th attacks in the U.S. Retail sales and the key business leading indicator were up strongly in November.

Outlook: As evidence of the U.S. slowdown in 2001 emerged, forecasters revised down their outlook for the world's largest economy in 2002 (see Chart 2.1), tumbling from 3.5 per cent in January to 0.7 per cent in November. The consensus growth forecast has now stabilized at 0.9 per cent.

Chart 2.1: U.S. economic growth forecasts for 2002 stabilize



Source: Consensus Economics, Inc.

The chart above represents forecasts for real GDP growth in 2002 as polled on specific dates. For example, forecasters surveyed on September 10, 2001 had an average U.S. growth forecast of 2.7 per cent. On September 25, 2001 these forecasters had revised down their outlook to an average of 1.5 per cent.

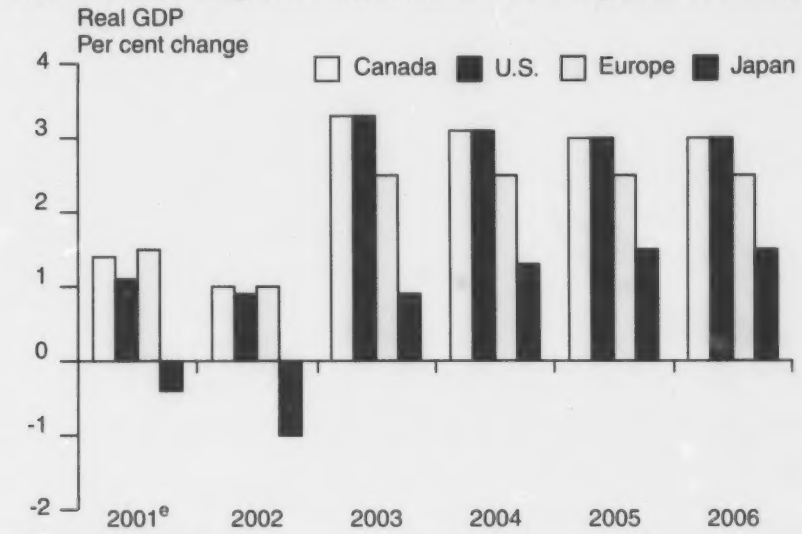
"Our projection of output growth for the next decade, however, is only 3.34 per cent per year, compared with the 1995-2000 average of 4.60 per cent"
Dale Jorgenson, Harvard University, December 31, 2001

A turnaround in the U.S. is expected to lead a global recovery in 2002. The U.S. Federal Reserve has cut interest rates dramatically and the U.S. government has adopted fiscal policies that should stimulate the economy. Real GDP is expected to grow 0.9 per cent in 2002 then 3.3 per cent in 2003. (See Chart 2.2.) Over the medium-term, economic growth in the United States is assumed to average 3.0 per cent per year. This is close to current estimates of potential output growth (the change in the level of output that the economy generates when people and capital equipment are fully-utilized).

Between 1995 and 2000, the U.S. economy posted annual growth rates in excess of 4.0 per cent, stronger than the annual rates recorded in the 1970's and 1980's. This stronger growth was believed to be due to increased productivity in the U.S. economy that allowed it to grow faster without running into bottlenecks in production and rising prices.

However, with the recession in 2001 prompting closer examination of this issue, new research suggests the U.S. economy may not have undergone as profound a "productivity miracle" as previously believed, and potential economic growth is expected to return to around 3.0 per cent.

Chart 2.2:
U.S. and Canada growth expected to lead the global economy



e: Ministry of Finance estimate
Source: Ministry of Finance

"Thus, the pace of economic activity in Canada is still expected to be above potential growth in the second half of the year — in the range of 3 to 4 per cent." Bank of Canada, Monetary Policy Report Update, January 2002

The Canadian economy is expected to grow 1.0 per cent in 2002, then pick up to 3.3 per cent in 2003. Employment is a lagging indicator of economic activity and as such, is expected to decline in the first part of 2002 then increase in the second half of the year. Over the medium-term, economic growth is assumed to mirror the performance of the U.S., growing in line with the Bank of Canada's estimates of potential growth.

TABLE 2.3
KEY ASSUMPTIONS
MINISTRY OF FINANCE ECONOMIC FORECAST

	Actual/ Estimate	Forecast				
	2001	2002	2003	2004	2005	2006
	Per cent change unless otherwise noted					
Canada real GDP	1.4e	1.0	3.3	3.1	3.0	3.0
U.S. real GDP	1.1	0.9	3.3	3.1	3.0	3.0
Japan real GDP	−0.4e	−1.0	0.9	1.3	1.5	1.5
Europe real GDP	1.5e	1.0	2.5	2.5	2.5	2.5
Short-term interest rates[1]	3.8	2.4	3.8	4.5	4.8	5.0
Long-term interest rates[2]	5.8	5.7	5.9	6.4	6.8	6.8
U.S. cents/Cdn $	64.6	63.5	64.5	66.5	67.2	67.5

e: Ministry of Finance estimate
[1] Canada 3-month treasury bills.
[2] Government of Canada Long-term (30-year) bonds.

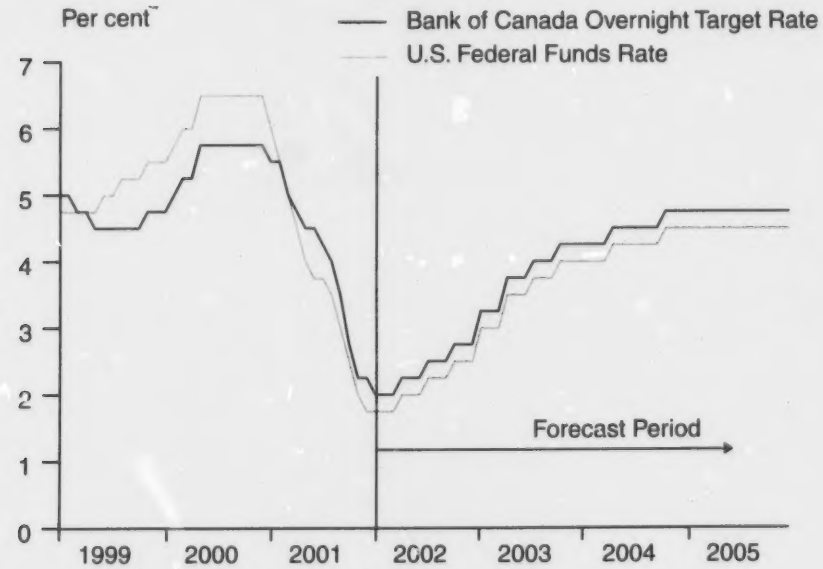
Japan's economy is expected to contract 1.0 per cent in 2002 following a decline in 2001. Japan's economic outlook hinges on government reforms since its key short-term interest rate is already near zero. With significant financial reforms needed, and still three to five years away, growth prospects over the forecast period are weak.

The outlook for Europe depends on the U.S. as one-fifth of its exports are destined for the U.S. The European Central Bank also cut interest rates in 2001 but not to the same extent as other central banks. As a result, interest rates are relatively high and are expected to be less of a boost to growth.

Financial Markets

Since easing by the central banks began in early 2001, the U.S. Federal Reserve cut short-term interests rates 11 times in an effort to add liquidity and maintain spending. Similarly, the Bank of Canada lowered short-term interest rates nine times in 2001, lowering the key overnight interest rate from 5.5 per cent in January to 2.25 per cent in December.

Chart 2.3: Central Bank easing ends in early 2002



Sources: Bank of Canada, U.S. Federal Reserve actuals, and Ministry of Finance forecast

Although the Canadian dollar started 2001 near 67 cents U.S., it traded between 62.5 and 64 cents for most of the second half of the year, reflecting falling commodity prices. At the beginning of 2002, the Canadian dollar fell against its U.S. counterpart, as the U.S. dollar strengthened against most currencies. The falling Canadian dollar did not reflect economic developments in Canada but rather a flight to quality by international investors. In times of uncertainty, the U.S. is often viewed as a safe haven for financial investments.

Outlook: The forecast includes the Bank of Canada's January 15th 25 basis point cut in the target overnight rate. North American short-term interest rates are expected to rise gradually in 2002. As a result, inflation pressures are expected to remain in line with the established inflation target of two per cent over the medium term in Canada, and at an acceptable level in the U.S. As economic growth picks up in 2003, the forecast assumes more frequent increases in short-term interest rates to ensure inflation remains under control. By the end of the forecast period, short-term interest rates are expected to be in the range of 4.5 to 5.0 per cent, but still below their 2000 level (see Chart 2.3).

Rising commodity prices should support a gradual rise in the Canadian dollar. The British Columbia Ministry of Finance expects the Canadian dollar to appreciate from 63.5 cents U.S. in 2002 to 67.5 cents U.S. in 2006.

Commodity Markets

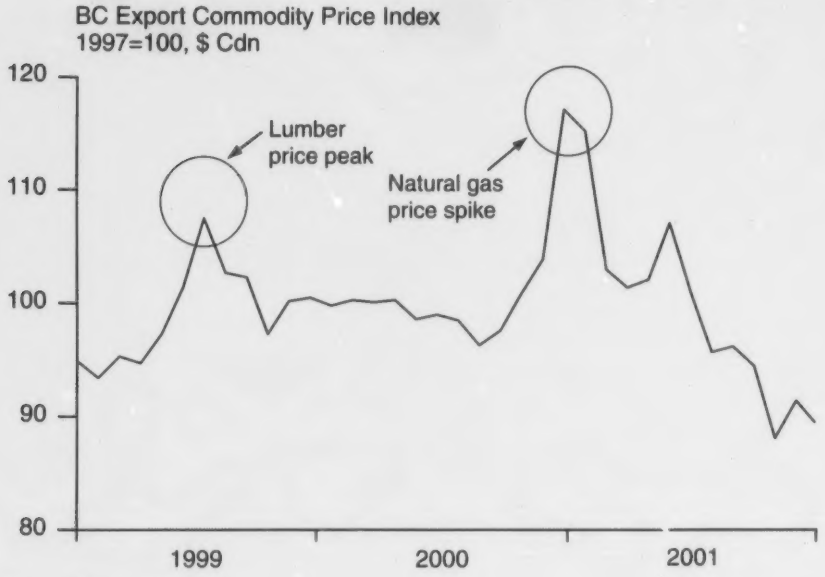
Prices of most natural resource commodities fell in 2001 reflecting the global industrial slowdown. Metal and mineral prices fell steadily through the year. Lumber prices started low then rose during the spring and early summer on stronger-than-expected U.S. housing, but have fallen off since.

The Ministry of Finance Export Commodity Price Index, a weighted average of key commodity prices, fell 2.2 per cent in 2001. Chart 2.4 shows the effect on the index of the natural gas price spike in December 2000 and the lumber price peak in July 1999. The lower commodity prices combined with lower export volumes to reduce the value of the province's exports. As a result, trade contributed less to overall economic growth in 2001 than in 2000.

The Canada-U.S. softwood lumber agreement governing softwood lumber exports to the U.S. expired on March 31, 2001. On August 9th, the U.S. imposed a 19.3 per cent preliminary countervailing duty (CVD) on softwood lumber shipments from Canada, and in October 2001 added a preliminary anti-dumping duty of close to 13 per cent. The provisional nature of the CVD on exports to the U.S. meant that it could only be in effect for 120 days. At the time of writing, British Columbia softwood lumber exporters were continuing to post bonds to cover the anti-dumping duty, but CVD bonding or cash deposits were not required for entries made between December 15, 2001 and mid-May 2002. If

talks between Canada and the U.S. do not reach an agreement, the Department of Commerce will rule on the final value for these two duties on March 21st. Canada has instigated a World Trade Organization challenge of the CVD preliminary determination and a panel was appointed this month.

Chart 2.4: Commodity prices fell in response to weaker demand



Source: Ministry of Finance

The general impact of a duty is to raise the cost to Canadian producers, and as a result reduce Canadian producers' ability to compete in the U.S. market, forcing higher-cost sawmills to close. In the longer term, the tariff reduces the profitability of Canadian sawmills relative to U.S. mills and leads to proportionately less investment in the sector and a decrease in relative competitiveness.

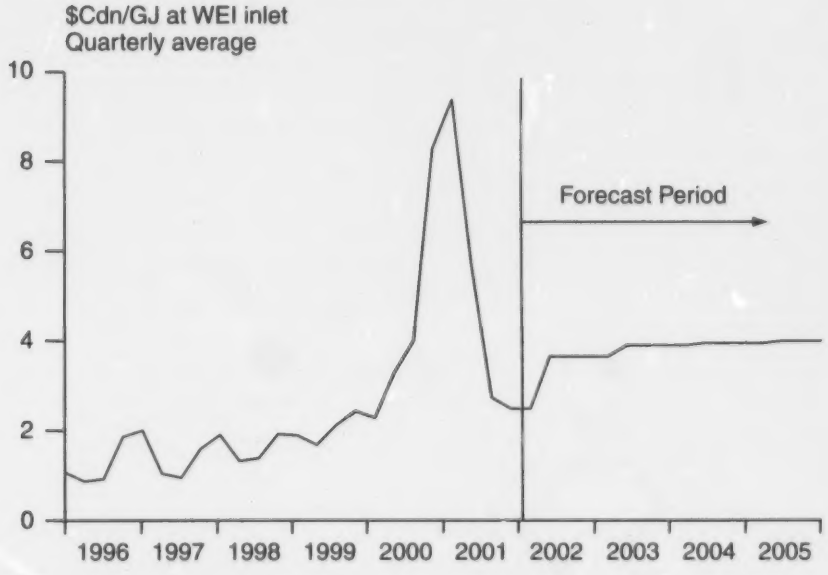
U.S.-Canada discussions have been taking place over the last few months to determine whether possible policy changes could lead to a durable resolution of the softwood lumber trade dispute. The B.C. government has been engaged in these talks, along with the federal and other provincial governments. In December, the governments of British Columbia, Alberta, Ontario and Quebec tabled written proposals for policy changes. B.C.'s proposal includes changes to stumpage, forest tenure and regulatory requirements. In early February, talks were on hold while Canada awaited a counter-proposal from the U.S. side. Talks were scheduled to resume the third week of February.

The forecast assumes that whatever the outcome of the softwood lumber dispute, the forest industry will be under continued pressure to reduce costs in order to remain competitive. This will result in a major restructuring of the

British Columbia forest industry, particularly on the coast. Initially there will be a decline in capital employed in the forest industry as less productive sawmills close and some consolidation occurs. Further into the forecast period, investment should increase as companies make capital investments to achieve higher productivity.

Outlook: The average price of British Columbia goods and services exports is expected to fall 0.6 per cent in 2002 then rise 2.9 per cent in 2003. The increase should be broad-based, with most commodity prices rising moderately. Benchmark spruce-pine-fir prices are expected to rise to $275 U.S. per thousand board feet in 2003 and remain at that level through the forecast period (see Table 2.8.5). Pulp and newsprint prices are expected to increase as demand for those products picks up. Natural gas prices are expected to be below 2001's average due to price spikes early last year that are not expected to be repeated in 2002. Over the forecast period, natural gas prices are assumed to remain higher than their historical average, reflecting an increase in industrial demand.

Chart 2.5: Natural gas price resumes trend

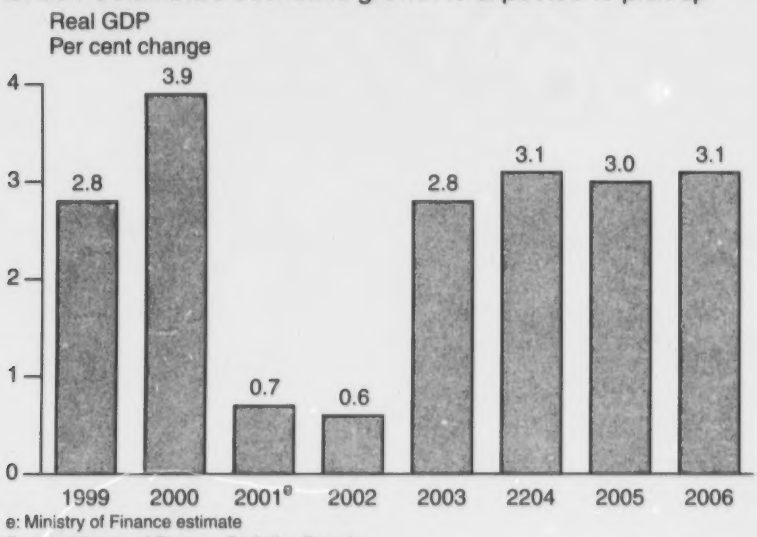


Source: Ministry of Energy and Mines

British Columbia Economic Forecast

The British Columbia economy is expected to begin a recovery in mid 2002. As growth in the province's key trading partners picks up in 2003, so should growth in British Columbia. Between 2004 and 2006, the economy is forecast to grow just over 3.0 per cent annually.

Chart 2.6:
British Columbia's economic growth is expected to pick up



e: Ministry of Finance estimate
Source: Ministry of Finance, Statistics Canada

TABLE 2.4
KEY INDICATORS
MINISTRY OF FINANCE ECONOMIC FORECAST

	Actual/ Estimate	Forecast				
	2001	2002	2003	2004	2005	2006
	Percentage change unless otherwise noted					
British Columbia Indicator						
Real GDP	0.7e	0.6	2.8	3.1	3.0	3.1
Nominal GDP	1.0e	1.0	4.2	4.7	4.8	4.8
Employment	−0.3	−0.2	1.8	2.3	2.2	2.1
Unemployment Rate	7.7	8.7	8.3	7.3	7.3	7.2
Net In-migration (thousands of persons)	24.8e	28.8	34.2	42.1	44.9	47.9
Personal Income	2.2e	2.0	3.6	4.0	4.5	4.5
Corporate Pre-tax Profits	−15.0e	−7.5	7.5	7.5	5.0	5.0
Housing Starts (thousands of units)	17.2	18.2	19.8	21.7	22.8	23.9
Retail Sales	5.8e	2.9	4.8	5.2	5.2	5.2
Inflation Rate	1.7	1.4	1.7	1.8	2.0	2.0

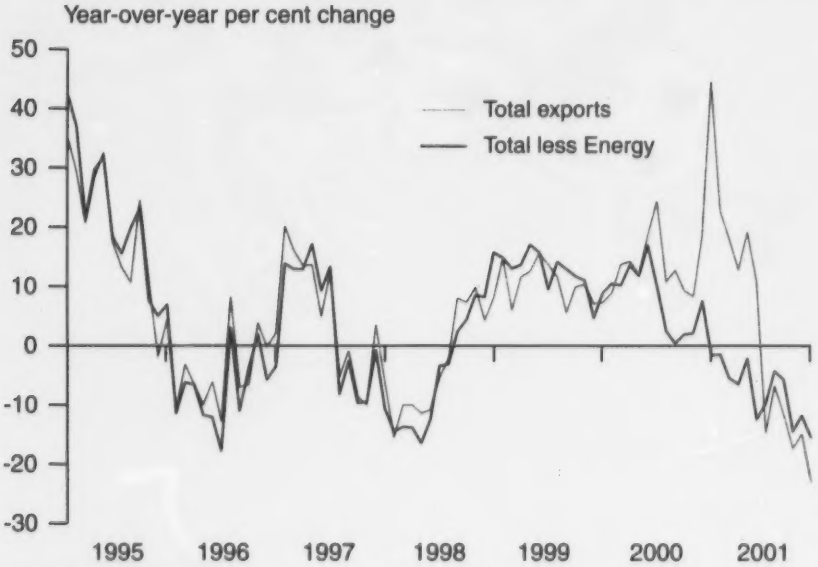
e: Ministry of Finance estimate
Source: Ministry of Finance, Statistics Canada

External Trade

The British Columbia economy trades goods and services in a competitive world market. The U.S. is the province's most important trading partner with almost two-thirds of British Columbia merchandise exports going south of the Canadian border. The province's domestic sector is relatively smaller than that of the U.S. or Canada and as such, trade developments including growth in the province's trading partners or commodity price changes, have a greater impact on British Columbia.

British Columbia exports started 2001 at record high levels, due to a spike in energy exports, then fell during the rest of the year. As a result, exports were down 1.0 per cent year-to-date through November, but were 22.8 per cent below last November's levels (see Chart 2.7). Excluding energy products, provincial exports were down 15.4 per cent in November, led by a decline in the value of forestry-related goods.

Chart 2.7: Merchandise exports declined due to global slowdown



Source: Statistics Canada

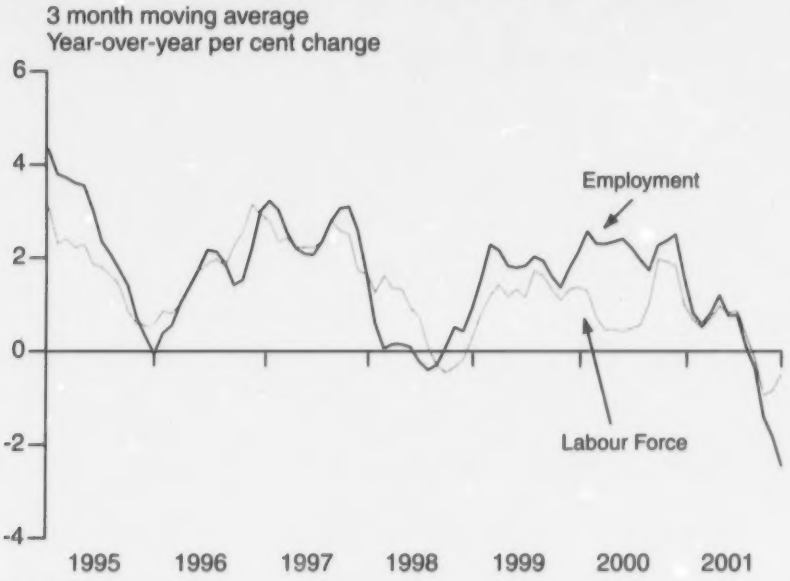
Outlook: Exports of wood products continue to be hurt by the preliminary countervailing and anti-dumping duties levied on softwood lumber. The reduced activity in the lumber sector, weak global industrial demand and falling demand for energy products could lead to reduced international exports in 2002. In 2003, as the U.S. and global economies turn around, increased demand and firmer prices should boost goods exports. Service exports are forecast to improve in 2003 alongside stronger U.S. and Canadian economic growth.

The Labour Market

Total employment fell 0.3 per cent for 2001. Employment peaked in March 2001 and declined steadily through the last half of the year. In addition to the overall decline in the number of jobs, there was a shift from full-time to part-time employment and a reduction in hours worked, developments typically seen in an economic slowdown. Chart 2.8 shows employment ended the year 3.1 per cent below its December 2000 level.

The unemployment rate averaged 7.7 per cent in 2001, ending the year at 9.7 per cent.

Chart 2.8: Employment and the labour force contracted



Source: Statistics Canada

Outlook: Total employment is expected to decline 0.2 per cent for 2002, as the economy works to replace the jobs lost in 2001. Employment is expected to rise during 2002, but the low level at the beginning of the year results in the annual average being lower than in 2001. The unemployment rate is expected to average 8.7 per cent in 2002, improving to 8.3 per cent in 2003.

Over the medium-term, employment growth is expected to pick up, adding an average of 45,000 jobs per year through 2006, to total 2.1 million in 2006. Growth of the province's labour force is forecast to pick up in 2005 and 2006 reflecting increased interprovincial migration. However, employment growth exceeds labour force growth and, as a result, the unemployment rate improves to 7.2 per cent in 2006.

Domestic Demand

Consumer Spending and Housing: Consumer spending accounts for about two-thirds of the provincial economy. British Columbia consumers, like their Canadian and U.S. counterparts, continued to spend during the economic slowdown. The value of provincial retail sales remained well above year earlier levels through to November (see Chart 2.9), helped by a surge in new motor vehicle sales in the final few months of the year due to low interest rates and deep discounting of new motor vehicle prices. In addition, a robust housing sector boosted sales of furniture and appliances in the first three quarters of the year.

Chart 2.9: Consumer spending remained robust

Source: Statistics Canada

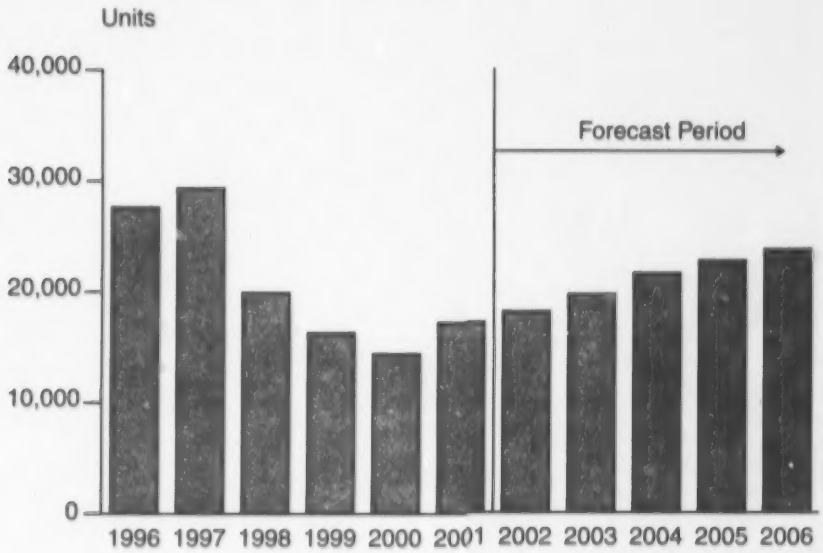
Lower mortgage rates helped the recovery in the housing market in 2001. Housing starts were up 19.5 per cent. Existing home sales were up 28.2 per cent in 2001 and existing house prices stabilized.

Outlook: Consumer confidence and spending is expected to be affected somewhat by the declining employment in the second half of last year. This could be partly offset by low consumer interest rates and signs of recovery in the first quarter of 2002. After adjusting for inflation, consumption of goods and services is expected to increase 1.9 per cent in 2002 and 3.2 per cent in 2003.

Over the medium-term, spending on goods and services is forecast to average about 2.6 per cent a year.

Housing starts are forecast to total 18,200 units in 2002 and 19,750 units in 2003 as the lagged effect of low interest rates continues to support demand for housing. The level of residential construction is expected to reflect stronger population growth in 2004 to 2006, with housing starts reaching around 24,000 units in 2006.

Chart 2.10: Housing starts to improve



Sources: Statistics Canada and Ministry of Finance forecast

Business and Government Activity: The North American recession was accompanied by reduced business investment. In British Columbia, corporate profits and investment were further reduced by developments in the province's forest sector. Business investment in machinery and equipment, non-residential structures and inventories accounts for just over ten per cent of economic activity. The government sector accounts for between ten and fifteen per cent. While total building permits were up 11.8 per cent in 2001, non-residential building permits trended downward in the fourth quarter.

Outlook: With an uncertain outlook for the forest sector in the near term, corporate pre-tax profits are expected to decline 7.5 per cent in 2002 before turning around to post growth of 7.5 per cent in 2003. Inflation-adjusted investment in fixed capital is expected to increase 2.3 per cent in 2002 and 4.6 per cent in 2003. Real investment is forecast to average about 5 per cent per year through 2006, reflecting the impact of lower corporate income tax rates and the tax exemption provided for production machinery and equipment, in addition to an improved business outlook. Over the medium-term, business investment in machinery and equipment is expected to increase alongside growth in corporate profits. Non-residential construction investment is also forecast to improve during the next five years.

Inflation-adjusted expenditures for all levels of government (including federal, provincial and local governments) are forecast to decline 1.4 per cent in 2002 and 3.4 per cent in 2003. The provincial government accounts for about one-half of current government spending, with the federal government making up the second largest share at just under 40 per cent. Over the medium-term, total government expenditures are expected to continue to decline, mainly reflecting the provincial government's announced spending reductions.

Inflation: Inflation, the rate of change in consumer prices, averaged 1.7 per cent in 2001. The change was due to higher prices for food, health and personal care, alcohol and tobacco as well as heating oil and natural gas in 2001. Electricity prices were lower in 2001, largely due to one-time rebates by BC Hydro.

Outlook: Inflation is expected to remain modest, averaging 1.4 per cent in 2002 and 1.7 per cent in 2003. As demand picks up, prices are forecast to rise by 2.0 per cent in 2005 and 2006.

Risks to the Forecast

"The major uncertainty for the outlook is the timing and strength of the recovery in global business investment."
Bank of Canada, Monetary Policy Report Update, January 2002

As with all forecasts, the economic outlook presented here has risks attached to it, both on the upside and the downside. These risks may affect the near-term, the medium-term, or both. While geopolitical events have evolved positively since the fall of 2001, and consumer confidence has improved, some risks remain. These include the global recovery, the war on terrorism and financial crises in Japan and Argentina. The most important risk to the British Columbia economic outlook is the timing and strength of the U.S. economic recovery, which hinges on a turnaround in business investment.

The most opportunistic risks to the British Columbia economy are:

1. Canada and the U.S. may return to the high productivity fuelled growth recorded in the late 1990s, generating stronger demand for goods and services.
2. A resolution of the softwood lumber dispute, alongside growing U.S. demand, will provide an opportunity for growth in British Columbia's forestry industry.
3. If British Columbia business confidence and investment pick up, this would provide a base for stronger economic growth in the province.
4. A turnaround in net in-migration in British Columbia would generate demand for goods and services and boost economic growth.

Alternatively, downside risks include:

1. It is possible that the North American economies grow slowly until excess capacity is worked off. Then in the medium-term, they may return to the

weak productivity and output growth that characterized the 1970s and 1980s. This would result in weaker demand for British Columbia goods and services.

2. If the global industrial pick up is weak and fails to generate demand for commodities, key commodity prices could fall, hurting British Columbia exports and the emerging oil and gas sector. Continuation of the softwood lumber dispute with the U.S. could also reduce growth in British Columbia.

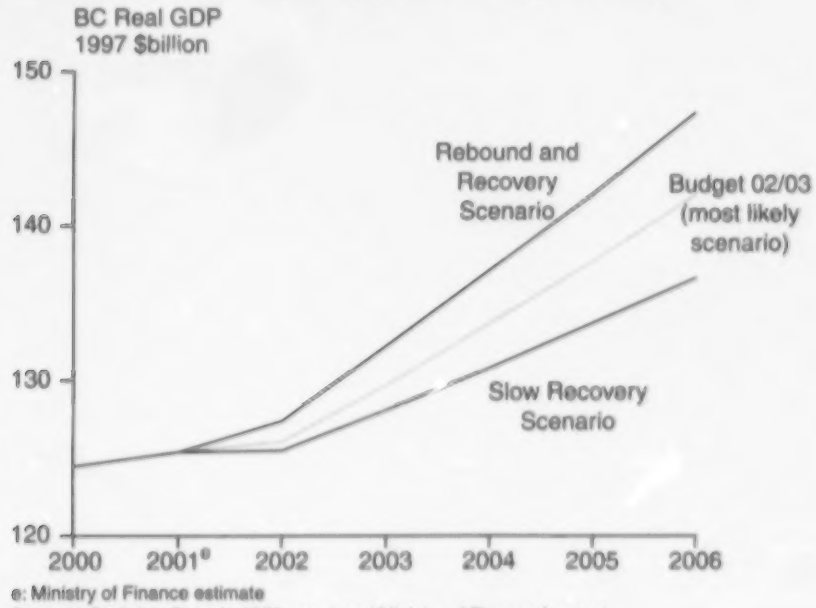
3. Business and consumer confidence could weaken for a variety of reasons, such as a delay in the expected economic recovery, or economic weakness in rural areas affected by the U.S. lumber dispute.

4. Japan's huge debt and dire economic conditions are threatening global financial stability. If events in Japan trigger a financial crisis, British Columbia could be hurt through the province's trade links to Japan and the other Asian countries that could be affected, in addition to the global ramifications of a Japanese financial crisis.

Scenarios Around the Budget Forecast

Given these risks, a number of possible paths exist for the North American economies, both in the near-term and in the medium-term. To reflect this, two possible scenarios were developed with more optimistic and more conservative assumptions. These indicate a range of possibilities around the budget economic forecast.

Chart 2.11: Scenarios identify probable forecast range



e: Ministry of Finance estimate
Sources: Statistics Canada 2000 actual and Ministry of Finance forecast

The reality is that the future may not unfold exactly as set out in any of these scenarios. While by 2004/05, the budget forecast provides the most likely outcome, the scenarios provide a range of probable outcomes, with there being slightly more risk that things might improve as opposed to the risk that they might deteriorate further.

For the near-term, the U.S. economy may rebound quickly or continue with slow annual growth of 0.5 per cent or less in 2002. Similarly, numerous outcomes exist for the medium-term. After a quick rebound in 2002, the U.S. economy may continue to have the very strong increases in productivity, and hence real GDP growth, that characterized the late 1990s. This combination of a quick bounce back in 2002 and a strong medium-term productivity performance is referred to as the "rebound and recovery" scenario. This scenario relies on the current monetary and fiscal stimulus in North America to boost economic growth.

Or, after slow and hesitant growth in 2002, the U.S. economy may return to the weak productivity and output growth that characterized the 1970s and 1980s. This is referred to as the "slow recovery" scenario. In this scenario, high levels of consumer debt in the U.S. and the large U.S. current account deficit hold back growth. These different growth paths mean different levels of economic prosperity for British Columbia.

If the U.S. and Canadian economies follow the slow recovery scenario, British Columbia real GDP is expected to post almost no growth in 2002 and average 2.1 per cent annually in 2003 through 2006 (see Table 2.5). In this scenario, consumer spending is weak, reflecting job losses in 2002. The unemployment rate peaks at 9.1 per cent in 2002 then falls gradually over the medium-term as employment conditions improve. Residential and business investment grow slowly in the first two years. Commodity prices are flat then rise slowly, and combined with a gradual increase in global industrial activity, generate modest increases in British Columbia exports. Business investment is expected to increase 1.6 per cent in 2002 then picks up to average 3.6 per cent per year. Over the medium-term, the effect of tax cuts is muted somewhat by relatively weak consumer and business confidence.

TABLE 2.5
KEY INDICATORS AND ASSUMPTIONS
SLOW RECOVERY SCENARIO

	Actual/ Estimate	Forecast				
	2001	2002	2003	2004	2005	2006
	Per cent change unless otherwise noted					
British Columbia Indicators:						
Real GDP	0.7e	0.1	2.0	2.1	2.1	2.2
Nominal GDP	1.0e	−0.8	2.9	3.6	4.2	4.0
Employment	−0.3	−0.7	1.3	1.6	1.5	1.6
Unemployment Rate	7.7	9.1	8.8	8.0	7.7	7.6
Net In-migration (thousands of persons)	24.8e	21.8	29.2	32.1	36.6	39.7
Personal Income	2.2	1.6	2.9	3.3	3.7	3.7
Corporate Pre-tax Profits	−15.0e	−32.7	−8.6	−0.1	5.0	0.5
Housing Starts (thousands of units)	17.2	17.9	18.8	20.7	21.7	22.8
Retail Sales	5.8e	1.1	3.5	4.2	4.6	4.5
Inflation Rate	1.7	1.2	1.2	1.3	1.7	1.7
Key Assumptions:						
Canada Real GDP	1.4e	0.3	1.9	2.0	2.3	2.5
U.S. Real GDP	1.1	0.2	1.9	2.0	2.3	2.5
Short-term interest rates[1]	3.8	1.7	1.9	3.1	3.8	4.0
Long-term interest rates[2]	5.8	4.9	4.9	5.5	5.7	5.9
U.S. cents/Cdn $	64.6	61.7	62.0	63.5	64.5	64.5

e: Ministry of Finance estimate
1 Canada 3-month treasury bills
2 Government of Canada Long-term (30 year) bonds
Source: Ministry of Finance, Statistics Canada

On the other hand, if the U.S. and Canadian economies respond to the monetary and fiscal stimulus already in place with strong growth in 2002 and beyond (the rebound and recovery scenario), the British Columbia economy could grow 1.6 per cent in 2002 and average 3.7 per cent per year in 2003 through 2006 (see Table 2.6). In this environment, the British Columbia economy adds 245,000 new jobs, or about 11 per cent of total employment by 2006. Over the medium-term, residential and business machinery and equipment investment contribute to the faster pace of growth as tax cuts encourage investment.

TABLE 2.6
KEY INDICATORS AND ASSUMPTIONS
REBOUND AND RECOVERY SCENARIO

	Actual/ Estimate	Forecast				
	2001	2002	2003	2004	2005	2006
	Per cent change unless otherwise noted					
British Columbia Indicators:						
Real GDP	0.7e	1.6	3.8	3.7	3.6	3.6
Nominal GDP	1.0e	3.6	5.8	5.5	5.4	5.2
Employment	−0.3	0.6	2.8	3.0	3.0	3.2
Unemployment Rate	7.7	8.2	7.2	6.7	6.5	6.5
Net In-migration (thousands of persons)	24.8e	35.2	42.3	48.3	51.2	52.6
Personal Income	2.2	2.5	4.5	5.0	5.0	5.0
Corporate Pre-tax Profits	−15.0e	22.4	12.2	7.3	5.0	5.0
Housing Starts (thousands of units)	17.2	18.5	20.6	22.7	23.5	24.6
Retail Sales	5.8e	5.5	6.4	6.1	5.8	5.7
Inflation Rate	1.7	1.7	2.5	2.4	2.5	2.6
Key Assumptions:						
Canada Real GDP	1.4e	2.0	4.2	4.0	4.0	4.0
U.S. Real GDP	1.1	2.0	4.2	4.0	4.0	4.0
Short-term interest rates[1]	3.8	2.8	4.9	5.8	5.8	5.8
Long-term interest rates[2]	5.8	6.3	7.4	8.0	8.0	8.0
U.S. cents/Cdn $	64.6	64.5	65.5	67.5	68.3	68.5

e: Ministry of Finance estimate
[1] Canada 3-month treasury bills.
[2] Government of Canada Long-term (30 year) bonds.
Source: Ministry of Finance, Statistics Canada.

These two scenarios provide a range around the budget forecast. Although events will inevitably vary somewhat, the budget outlook reflects the most likely forecast.

In any event, the two scenarios should not be taken to represent absolute upper and lower bounds to the forecast. Rather, they represent a reasonable range in which the actual outcome is likely to occur.

TABLE 2.7
BRITISH COLUMBIA ECONOMIC OUTLOOK

	July 30 Forecast	Actual/ Estimate	Forecast	
	2001		2002	2003
Gross Domestic Product (current dollars; percentage change)	3.6	1.0[1]	1.0	4.2
Real Gross Domestic Product (percentage change)	**2.2**	**0.7[1]**	**0.6**	**2.8**
Consumer Expenditure	2.4	2.2	1.9	3.2
Capital Investment	3.3	2.1	2.3	4.6
Government Expenditure	1.6	1.9	−1.4	−3.4
Exports of Goods and Services	1.4	−2.1	−0.6	3.3
Imports of Goods and Services	2.3	1.5	1.2	1.9
Inventory Investment (change in billions of 1997 dollars)	0.3[2]	0.1	0.1	−0.2
B.C. Economic Forecast Council — Real GDP growth	**2.1**	**0.7**	**0.7**	**3.0**
Population July 1 (percentage change)	0.9	0.9	0.8	1.0
Net In-migration	26,900	24,800[1]	28,800	34,200
Interprovincial	−8,600	−9,000[1]	−3,000	0
International	35,500	33,800[1]	31,800	34,200
Labour Force (thousands)	2,132	2,103	2,123	2,153
(percentage change)	1.5	0.2	0.9	1.4
Employment (thousands)	1,978	1,942	1,939	1,975
(percentage change)	1.5	−0.3	−0.2	1.8
Unemployment Rate (per cent)	7.2	7.7	8.7	8.3
Retail Sales (millions of current dollars)	37,250	37,900[1]	39,000	40,870
(percentage change)	4.0	5.8	2.9	4.8
Labour Income[3] (millions of current dollars)	69,720	69,100[1]	69,860	72,470
(percentage change)	3.3	1.9	1.1	3.7
Corporate Pre-tax Profits (millions of current dollars)	9,610	8,740[1]	8,080	8,690
(percentage change)	5.0	−15.0	−7.5	7.5
Housing Starts (units)	15,600	17,234	18,200	19,750
(percentage change)	8.2	19.5	5.6	8.5
Consumer Price Index (1992=100)	115.5	115.2	116.8	118.8
(percentage change)	2.0	1.7	1.4	1.7

[1] Ministry of Finance estimates.
[2] Change in billions of 1992 dollars.
[3] Wages, salaries and supplementary labour income.

TABLE 2.7
BRITISH COLUMBIA ECONOMIC OUTLOOK — *Continued*

	July 30 Forecast	Actual/ Estimate	Forecast	
	2001		2002	2003
Key Assumptions:				
Economic Growth (per cent)				
Canada	2.0	1.4[1]	1.0	3.3
United States	1.5	1.1	0.9	3.3
Japan	−0.5	−0.4[1]	−1.0	0.9
Europe	2.5	1.5[1]	1.0	2.5
Housing Starts (percentage change)				
Canada	4.6	7.3	−3.5	1.0
United States	0.8	2.2	−4.4	1.3
Japan	−3.2	−4.6	−1.7	0.9
Industrial Production (percentage change)				
United States	0.0	−3.7	−1.8	3.3
Japan	−1.0	−7.6	−4.5	1.3
Consumer Prices (percentage change)				
Canada	2.9	2.5	1.6	2.0
United States	3.1	2.8	1.6	2.5
Canadian Interest Rates (per cent; annual average)				
3-month Treasury Bills	4.4	3.8	2.4	3.8
Government of Canada Long-term bonds	NA	5.8	5.7	5.9
United States Interest Rates (per cent; annual average)				
3-month Treasury Bills	3.6	3.4	2.1	3.5
U.S. Government Long-term bonds	NA	5.5	5.6	5.8
U.S. cents/Canadian dollar	65.5	64.6	63.5	64.5
Commodity Prices				
BC Goods and Services Export Prices (Cdn $; percentage change)	3.0	1.3[1]	−0.6	2.9
Spruce-Pine-Fir Lumber (U.S. $ / 1,000 board feet)	260	248	250	275
Pulp (U.S. $ / tonne)	563	541	500	550
Newsprint (U.S. $ / tonne)	608	588	538	588
Copper (U.S. $ / lb.)	0.79	0.72	0.70	0.84
Lead (U.S. $ / lb.)	0.21	0.22	0.23	0.23
Zinc (U.S. $ / lb.)	0.46	0.40	0.40	0.54
Gold (U.S. $ / oz.)	270	271	294	300
Natural Gas (Cdn$ / gigajoule.)	6.79	5.07	3.36	3.84
Coal (U.S. $ / tonne)[2]	37	42	40	40

[1] Ministry of Finance estimates.
[2] Weighted average of metallurgical and thermal coal prices.

TABLE 2.8.1

GROSS DOMESTIC PRODUCT — BRITISH COLUMBIA AND CANADA

	Actual		Forecast				
	2000	2001e	2002	2003	2004	2005	2006
BRITISH COLUMBIA:							
Gross Domestic Product at Market Prices							
— CURRENT DOLLAR ($ million)	127,564	128,840	130,100	135,570	141,890	148,690	155,840
(% change)	5.8	1.0	1.0	4.2	4.7	4.8	4.8
— Real (1997 $ million)	124,464	125,380	126,120	129,640	133,650	137,650	141,920
(% change)	3.9	0.7	0.6	2.8	3.1	3.0	3.1
— GDP Price Deflator (1997 = 100)	102.5	102.8	103.2	104.6	106.2	108.0	109.8
(% change)	1.8	0.2	0.4	1.4	1.5	1.7	1.7
Real GDP Per Capita (1997 $ per person)	30,663	30,611	30,555	31,082	31,674	32,214	32,784
(% change)	3.1	−0.2	−0.2	1.7	1.9	1.7	1.8
Real GDP Per Employed Person (% change)	1.6	1.1	0.7	0.9	0.8	0.8	1.0
Unit Labour Cost[1] (% change)	1.8	1.1	0.5	0.9	1.5	1.6	1.6
CANADA:							
Gross Domestic Product at Market Prices:							
— Current Dollar ($ billion)	1,056	1,087	1,098	1,152	1,208	1,266	1,331
(% change)	8.3	3.0	1.0	4.9	4.8	4.8	5.1
— Real (1997 $ billion)	1,009	1,023	1,033	1,066	1,100	1,133	1,167
(% change)	4.4	1.4	1.0	3.3	3.1	3.0	3.0
— GDP Price Deflator (1997 = 100)	104.6	106.3	106.3	108.0	109.8	111.8	114.0
(% change)	3.7	1.6	0.0	1.6	1.7	1.8	2.0
Real GDP Per Capita (1997 $ per person)	32,798	32,909	32,950	33,757	34,537	35,317	36,121
(% change)	3.5	0.3	0.1	2.4	2.3	2.3	2.3
Real GDP Per Employed Person (% change)	1.8	0.2	1.2	1.4	1.5	1.4	1.4

e: British Columbia GDP figures for 2001 are Ministry of Finance estimates.
[1] Unit labour cost is the nominal cost of labour incurred to produce one unit of real output.

TABLE 2.8.2
COMPONENTS OF BRITISH COLUMBIA REAL GDP AT MARKET PRICES

	Actual		Forecast				
	2000	2001e	2002	2003	2004	2005	2006
Personal Expenditure on Goods and Services (1997 $ billion)	78.3	80.1	81.6	84.1	86.6	88.7	90.9
(% change)	3.5	2.2	1.9	3.2	3.0	2.4	2.4
— Goods (1997 $ billion)	33.3	34.3	34.7	35.9	37.0	37.7	38.5
(% change)	3.2	2.7	1.2	3.5	3.0	1.9	2.0
— Services (1997 $ billion)	45.0	45.8	46.9	48.2	49.7	51.0	52.4
(% change)	3.8	1.8	2.3	2.9	2.9	2.7	2.7
Government Current Expenditures on Goods and Services (1997 $ billion)	24.1	24.6	24.2	23.4	22.5	22.3	22.4
(% change)	2.6	1.9	−1.4	−3.4	−3.8	−0.8	0.1
Investment in Fixed Capital (1997 $ billion)	24.5	25.0	25.6	26.8	28.1	29.5	30.9
(% change)	5.1	2.1	2.3	4.6	5.1	4.9	4.7
Final Domestic Demand[1] (1997 $ billion)	126.9	129.6	131.4	134.3	137.3	140.6	144.1
(% change)	3.7	2.1	1.4	2.2	2.2	2.4	2.5
Net Exports of Goods	−4.2	−6.3	−7.4	−6.7	−5.5	−4.6	−3.8
— Exports of Goods and Services (1997 $ billion)	58.6	57.4	57.0	58.9	61.7	64.2	66.8
(% change)	7.0	−2.1	−0.6	3.3	4.6	4.1	4.0
— Imports of Goods and Services (1997 $ billion)	62.7	63.7	64.4	65.6	67.2	68.8	70.6
(% change)	8.0	1.5	1.2	1.9	2.5	2.5	2.6
Inventory Change (1997 $ billion)	1.3	1.4	1.5	1.3	1.2	1.1	0.9
Statistical Discrepancy (1997 $ billion)	0.4	0.6	0.6	0.6	0.6	0.6	0.6
Real GDP at Market Prices[2] (1997 $ billion)	124.5	125.4	126.1	129.6	133.7	137.7	141.9
(% change)	3.9	0.7	0.6	2.8	3.1	3.0	3.1

e: Figures for 2001 are Ministry of Finance estimates.
[1] Final domestic demand is the sum of personal expenditures, government current expenditures and investment in fixed capital.
[2] Real Gross Domestic Product at Market Prices is the sum of final domestic demand, net exports, inventory changes and statistical discrepancy.

TABLE 2.8.3
COMPONENTS OF NOMINAL INCOME AND EXPENDITURE

	Actual		Forecast				
	2000	2001	2002	2003	2004	2005	2006
Labour Income[1] ($ million)	67,828	69,100e	69,860	72,470	75,800	79,340	83,070
(% change)	5.7	1.9	1.1	3.7	4.6	4.7	4.7
Personal Income ($ million)	106,149	108,470e	110,640	114,650	119,290	124,620	130,210
(% change)	5.2	2.2	2.0	3.6	4.0	4.5	4.5
Corporate Profits Before Taxes ($ million)	10,287	8,740e	8,080	8,690	9,340	9,800	10,290
(% change)	12.7	−15.0	−7.5	7.5	7.5	5.0	5.0
Retail Sales ($ million)	35,821	37,900e	39,000	40,870	42,990	45,230	47,580
(% change)	6.3	5.8	2.9	4.8	5.2	5.2	5.2
Housing Starts	14,418	17,234	18,200	19,750	21,670	22,830	23,850
(% change)	−11.6	19.5	5.6	8.5	9.7	5.4	4.5
Residential Investment[2] ($ million)	6,707	7,216e	7,632	7,970	8,351	8,665	8,974
(% change)	−1.1	7.6	5.8	4.4	4.8	3.8	3.6
B.C. Consumer Price Index (1992 = 100)	113.3	115.2	116.8	118.8	120.9	123.3	125.8
(% change)	1.8	1.7	1.4	1.7	1.8	2.0	2.0

e: Ministry of Finance estimates.
[1] Domestic basis; wages, salaries and supplementary labour income.
[2] Includes renovations and improvements.

TABLE 2.8.4
LABOUR MARKET INDICATORS

	Actual		Forecast				
	2000	2001	2002	2003	2004	2005	2006
Population (on July 1) (000's)	4,059	4,096	4,128	4,171	4,220	4,273	4,329
(% change)	0.8	0.9	0.8	1.0	1.2	1.3	1.3
Labour Force Population, 15+ Years (000's)	3,237	3,280	3,324	3,376	3,433	3,494	3,556
(% change)	1.4	1.3	1.3	1.6	1.7	1.8	1.8
Net In-Migration							
— International[1]	31,845	33,800[e]	31,800	34,200	34,500	35,100	35,600
Interprovincial	−17,296	−9,000[e]	−3,000	0	7,600	9,900	12,300
— TOTAL[2]	14,549	24,800[e]	28,800	34,200	42,100	44,900	47,900
Participation Rate[3] (%)	64.9	64.1	63.9	63.8	63.5	63.7	63.9
Labour Force (000's)	2,100	2,103	2,123	2,153	2,181	2,227	2,273
(% change)	1.0	0.2	0.9	1.4	1.3	2.1	2.1
Employment (000's)	1,949	1,942	1,939	1,975	2,021	2,065	2,109
(% change)	2.2	−0.3	−0.2	1.8	2.3	2.2	2.1
— Goods Sector Employment (000's)	414	392	376	380	384	388	393
(% change)	4.5	−5.4	−3.9	0.8	1.1	1.0	1.3
— Service Sector Employment (000's)	1,535	1,550	1,563	1,595	1,637	1,677	1,716
(% change)	1.6	1.0	0.8	2.1	2.6	2.5	2.3
Unemployment Rate (%)	7.2	7.7	8.7	8.3	7.3	7.3	7.2

e: Ministry of Finance estimate.
[1] International migration includes net non-permanent residents and returning emigrants less net temporary abroad.
[2] Total may not add due to rounding.
[3] Percentage of the population 15 years of age and over in the labour force.

TABLE 2.8.5
MAJOR ECONOMIC ASSUMPTIONS

	Actual		Forecast				
	2000	2001	2002	2003	2004	2005	2006
REAL GDP (billions)							
Canada (1997 $)	1,009	1,023e	1,033	1,066	1,100	1,133	1,167
(% change)	4.4	1.4	1.0	3.3	3.1	3.0	3.0
U.S.A. (1996 U.S.$; chain-weighted)	9,224	9,326e	9,409	9,724	10,026	10,322	10,635
(% change)	4.1	1.1	0.9	3.3	3.1	3.0	3.0
Japan (1990 Yen)	534,047	532,167e	526,607	531,280	538,358	546,504	554,859
(% change)	2.2	−0.4	−1.0	0.9	1.3	1.5	1.5
Europe[1] (% change)	3.5	1.5e	1.0	2.5	2.5	2.5	2.5
Housing Starts (000's)[2]							
Canada	152	163	157	159	161	164	164
(% change)	1.1	7.3	−3.5	1.0	1.6	1.6	0.0
U.S.A.	1,569	1,603	1,533	1,552	1,578	1,600	1,600
(% change)	−4.4	2.2	−4.4	1.3	1.6	1.4	0.0
Japan	1,230	1,174	1,154	1,164	1,175	1,175	1,175
(% change)	1.3	−4.6	−1.7	0.9	0.9	0.0	0.0
Consumer Price Index							
Canada (1997 = 100)	113.5	116.4	118.3	120.6	123.0	125.5	128.0
(% change)	2.7	2.5	1.6	2.0	2.0	2.0	2.0
U.S.A. (1982-1984 = 100)	172.2	177.1	179.9	184.4	189.0	193.7	198.6
(% change)	3.4	2.8	1.6	2.5	2.5	2.5	2.5
Canadian Interest Rates (%)							
3-Month Treasury Bills	5.5	3.8	2.4	3.8	4.5	4.8	5.0
Long-Term Government Bonds	5.7	5.8	5.7	5.9	6.4	6.8	6.8
United States Interest Rates (%)							
3-Month Treasury Bills	5.8	3.4	2.1	3.5	4.3	4.5	4.5
Long-Term Government Bonds (30 years)	5.9	5.5	5.6	5.8	6.3	6.7	6.7
Exchange Rate (U.S. cents / Canadian $)	67.3	64.6	63.5	64.5	66.5	67.2	67.5
Commodity Prices							
Spruce-Pine-Fir Lumber (U.S. $/1,000 board feet)	255	248	250	275	275	275	275
Pulp (U.S. $/tonne)	681	541	500	550	594	600	600
Newsprint (U.S. $/tonne)	565	588	538	588	600	600	600
Copper (U.S. $/lb.)	0.82	0.72	0.70	0.84	0.90	0.95	0.95
Natural Gas (Cdn. $/gigajoule at WEI inlet)	4.46	5.07	3.36	3.84	3.94	3.99	4.04

e: Ministry of Finance estimate.
[1] European Union less Luxembourg, plus Austria, Finland, Iceland, Norway, Sweden, Switzerland, Turkey, and former Yugoslavia.
[2] British Columbia housing starts appear in Table 2.8.3.

TABLE 2.9
CURRENT ECONOMIC STATISTICS

	Latest Period		Year-to-Date Average		
			2000	2001	Change
BRITISH COLUMBIA					
LABOUR MARKET					
Employment (s.a., thousands)	Dec-01	1,913.0	1,949.1	1,942.4	−0.3%
Unemployment rate (s.a., per cent)	Dec-01	9.7	7.2	7.7	0.5
In-migration	Q3-01	3,198	4,059	6,778	2,719
Interprovincial (persons)	Q3-01	(1,833)	(4,445)	(2,364)	2,081
International (persons)	Q3-01	5,031	8,504	9,142	638
Wages, salaries and supplementary labour income (s.a. $millions)	Sep-01	5,760	5,622	5,774	2.7%
Average weekly wage rate	Dec-01	643.7	636.9	645.7	1.4%
CONSUMER SECTOR					
Retail sales (s.a., $ million)	Nov-01	3,218	2,974	3,150	5.9%
Car and truck sales (s.a., units)	Nov-01	15,998	13,936	14,296	2.6%
Housing starts (all areas, s.a., annual rate)	Dec-01	16,100	14,418	17,234	19.5%
Existing home sales (s.a.)	Dec-01	7,132	4,515	5,786	28.2%
Building permits (s.a., $ thousands)	Dec-01	354	374	418	11.8%
British Columbia consumer price index (annual per cent change)	Dec-01	0.4	1.8	1.7	−0.1
INDUSTRIAL ACTIVITY					
Foreign merchandise exports (s.a., $ million)	Nov-01	2,225	2,715	2,687	−1.0%
Manufacturing shipments (s.a., $ million)	Nov-01	2,685	3,148	2,864	−9.0%
Lumber production (thousand cubic metres)	Nov-01	2,302	2,715	2,572	−5.3%
Pulp and paper production (thousand tonnes)	Dec-01	538	702	618	−12.0%
Coal production (thousand tonnes)	Nov-01	2,452	2,120	2,293	8.2%
Natural gas production (million cubic metres)	Aug-01	2,615	2,063	2,327	12.8%
Copper production (million kg)	Nov-01	19.7	22.3	22.8	2.2%
TOURISM					
Entries of U.S. and overseas residents (thousands)	Nov-01	390	721	709	−1.6%
B.C. Ferry passengers to/from Vancouver Island (thousands)	Dec-01	781	927	919	−0.9%
COMMODITY PRICES					
Lumber (U.S.$/thousand board feet)	Jan-02	234	255	248	−2.6%
Pulp (U.S. $/tonne)	Jan-02	468	681	541	−20.5%
Newsprint (U.S.$/tonne)	Jan-02	501	565	588	4.0%
Copper (U.S.$/lb.)	Jan-02	0.68	0.82	0.72	−12.2%
B.C. export commodity price index (Cdn. $ Index:1997 = 100)	Dec-01	89.5	101.0	98.8	−2.2%
FINANCIAL DATA					
Canadian dollar (U.S. cents)	Jan-02	62.4	67.3	64.6	−2.7
Canadian prime rate (per cent)	Jan-02	3.88	7.25	5.99	−1.26
Canadian 3-month treasury bills (per cent)	Jan-02	1.90	5.45	3.87	−1.58
Treasury bill spread — Canada minus U.S. (per cent)	Jan-02	0.26	−0.37	0.49	0.86

s.a. — seasonally adjusted.

TABLE 2.9
CURRENT ECONOMIC STATISTICS

	Latest Period		Year-to-Date Average		
			2000	2001	Change
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s.a. — seasonally adjusted

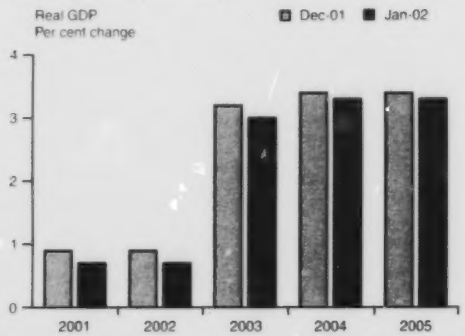
THE ECONOMIC FORECAST COUNCIL, 2002

Introduction

Prior to the annual budget, the Minister of Finance seeks the advice of the Economic Forecast Council (the Council) on the outlook for the provincial economy and presents their forecasts with the budget. This consultation process is laid out in the *Budget Transparency and Accountability Act*.

The Minister met with the Council on December 11, 2001, to discuss the economic outlook. Council members were asked to submit a forecast prior to the meeting. These forecasts were publicly released December 11, 2001. Subsequently, several participants submitted new forecasts in mid-January. The detailed results are summarized in the table at the end of the topic box.

Economic Forecast Council Outlook for British Columbia Economy



As with previous Council meetings, Council members presented their views on the province's near-term economic outlook, as well as factors affecting the province's medium-term outlook. Council members were also briefed on the government's economic policy including the provincial tax cuts already in place and the reductions in provincial government spending planned over the next three years. This was followed by a discussion of the impact of fiscal policy and other issues facing the British Columbia economy.

Overview

The general view of the Council was that the British Columbia economy would continue to post modest growth in 2002 then pick up in 2003 through 2005. The Canadian economy would outpace the United States in the next four years.

An emerging North American economic recovery in 2002 was evident in most participants' forecasts and the discussion. Growth in Europe was expected to lag the U.S. recovery. The Asian economies were expected to continue growing although participants expressed doubts about the prospect of an economic recovery in Japan, a key market for British Columbia. Japan is not expected to improve until it restructures key sectors and this could take another three to five years.

International Developments

Council members expected the U.S. and Canadian economies to enter a recovery in mid-2002 and post stronger growth in 2003, 2004 and 2005. On average, the U.S. economy was expected to grow 1.1 per cent in 2002 and 3.5 per cent in 2003. By 2004 and 2005[1] real GDP was projected to increase 3.3 per cent annually. Council discussions focused on the timing and strength of the U.S. economic recovery.

Although there was consensus that the U.S. economy would pull out of recession in 2002, there were two views about the timing and strength of the recovery. Most Council members expected the U.S. economy to recover gradually beginning in the second quarter of 2002, but this was conditional on monetary and fiscal stimulus in the U.S. The pace of recovery could be slower than in past

[1] Council members provided an average forecast for 2004 and 2005.

recoveries because consumer spending has remained relatively strong through the slowdown, particularly in auto sales and housing starts. This means that consumer spending would not provide as much of a lift when the economy turns the corner. In addition, capital spending could be slow to rebound because of low corporate profits in the near term and current high levels of unused production capacity.

However, a minority believed the economy would come back more quickly and sooner. U.S. inventories were very low and rebuilding them would add to growth. A rebound in consumer and business confidence would contribute to a strong recovery in economic growth.

Council members generally agreed that economic growth in Europe and Asia would lag the U.S. recovery, although the Japanese outlook remains highly uncertain.

The Canadian Economy

The Council expected that the Canadian economy would grow at a faster pace than the U.S. in the next two years. Business and consumer confidence in Canada were not affected to the same extent by the events of September 11th. In addition, tax cuts were in place earlier in Canada than in the U.S. The average forecast of economic growth was 1.3 per cent in 2002 and 3.6 per cent in 2003. The Canadian economy was expected to grow 3.4 per cent in 2004 and 2005.

Some participants said that lower interest rates, as well as federal and provincial tax cuts, would encourage consumer spending and business investment in Canada. Others pointed out that provincial governments were heading towards deficits and this would limit their ability to reduce taxes further to encourage economic growth.

Financial Markets

Most participants expected the U.S. Federal Reserve (the Fed) to cut short-term interest rates one more time in early 2002. (Subsequent to the EFC meeting, the U.S. Federal Reserve did not cut short-term interest rates.) With low capacity utilization levels in the manufacturing sector and mild inflationary pressures, the Fed was then expected to keep rates unchanged until mid-2002. Over the medium-term, interest rates would rise as economic growth picked up, but remain below pre-easing levels.

The Bank of Canada would likely follow the Fed moves as economic conditions in Canada were expected to follow the U.S. recovery. Canadian short-term interest rates would be higher, on average, than those in the U.S. in the next four years.

In addition, most participants felt the Canadian dollar would be weak in 2002 due to soft commodity prices stemming from a weak global economy. The value of the Canadian dollar would rise over the forecast period but would remain low by historical standards, averaging 66.8 cents U.S. in 2004 and 2005. One Council participant noted that another view on the currency outlook was that the Canadian dollar would continue to fall with respect to the U.S. dollar reaching 59 cents U.S. by 2004/05.

British Columbia

On average, participants expected British Columbia's economy to grow 0.7 per cent in 2002 and 3.0 per cent in 2003, based on the latest survey results[2]. Opinions for 2002 real GDP growth ranged from minus 0.5 to plus 2.0 per cent. Two participants believed that provincial growth would be less than zero in 2002, due in part to restructuring in the province's forest sector and reduced activity in the tourism sector, or spending cuts by the provincial government.

While most participants were positive about the province's economic outlook, Council members believed that the British Columbia economy would underperform the national average due to restructuring in the forest sector (and more immediately, the impact of the softwood lumber dispute), reduced tourism activity and provincial fiscal restraint during the next two years.

[2] The average of the December council meeting was 0.9 per cent in 2002 and 3.2 per cent in 2003.

British Columbia Economic Forecast Council: Summary of Forecasts
as at January 14, 2002

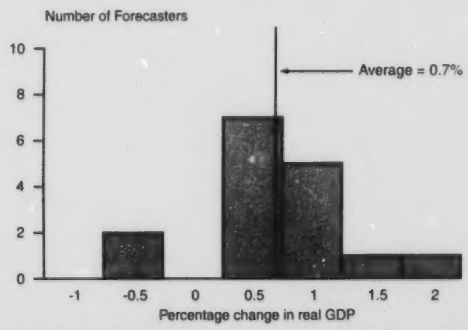
Participant	Organization	2001	2002	2003	2004/2005 Average
		Percentage change in Real GDP			
Paul Bowles	UNBC	1.1	1.2	3.0	na
Don Drummond	TD Bank	0.8	0.9	2.9	2.8
Mario Lefebvre	Conference Board	0.7	0.5	3.4	3.7
John DeWolf	CCG Consulting	0.5	2.0	2.8	3.2
Jock Finlayson	BC Business Council	1.0	1.0	3.6	3.6
Warren Jestin	Scotiabank	0.9	0.5	2.6	3.4
John Helliwell	UBC	1.0	0.5	2.0	na
Craig Wright	RBC Financial Group	0.9	0.7	3.0	na
Paul Ferley	Bank of Montreal	0.7	0.5	3.0	3.0
Robert Hoffman	DRI-WEFA Canada	0.8	0.8	2.7	2.9
Helmut Pastrick	Credit Union Central of BC	0.9	0.6	2.8	3.5
George Pedersson	G.A. Pedersson & Associates	−0.5	−0.5	3.0	4.0
Alister Smith	CIBC	0.8	1.0	3.0	na
Carl Sonnen	Informetrica	−0.6	−0.3	3.0	3.3
Ernie Stokes	Stokes Economic Consulting	1.0	1.5	3.5	3.5
William Tharp	M. Murenbeeld & Associates	1.1	0.6	4.0	3.1
Dave Park	Vancouver Board of Trade	na	na	na	na
Average		**0.7**	**0.7**	**3.0**	**3.3**

na: did not provide a forecast
Michael Goldberg, University of British Columbia was unable to attend.

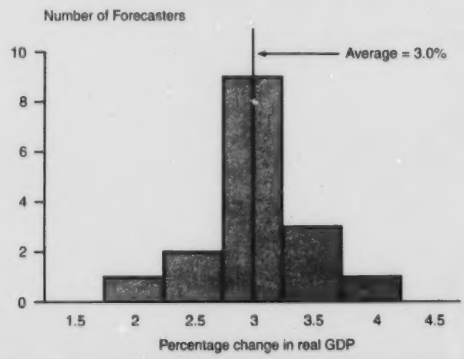
External Developments

Most Council members cited the softwood lumber dispute with the U.S. as the biggest factor affecting the outlook for the British Columbia economy. The countervailing and anti-dumping duties, combined with lower lumber prices, have devastated the forest industry in the province. Several suggested that the softwood lumber dispute would be difficult to resolve favourably for British Columbia.

Economic Growth Forecasts, 2002



Economic Growth Forecasts, 2003



A number of participants forecast a broad-based commodity price rise in 2003, 2004 and 2005, alongside a rebound in global industrial production. This could lead to rising profits for resource companies in the province. Participants noted that resource industries remain an important contributor to British Columbia's economy and a significant driver of provincial revenue.

Domestic Developments

Most participants believed that provincial employment would be flat in 2002 as a result of restructuring in the forestry sector, and slow growth in high tech and tourism-related industries. In 2003, employment growth would pick up and the unemployment rate would decline to average 8.0 per cent. Personal disposable income was expected to rise faster than labour income due to tax cuts, leading to higher consumer spending. Others thought the continued job losses would delay a recovery in consumer confidence.

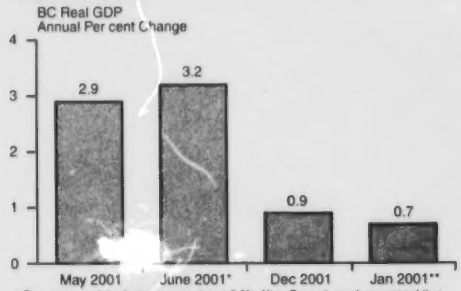
Most Council members expected a turnaround in net interprovincial migration by 2003. As a result, the pace of population growth was expected to pick up. Demand for housing in the province should improve significantly in 2003, 2004 and 2005. Many noted that the information technology sector would be a source of strength for the provincial economy.

A few participants were skeptical that faster growth in population and housing starts would occur. They also felt that consumer debt levels would constrain growth in consumer spending.

Government

Most Council members agreed that to meet the legislated balanced budget target by 2004/05 without a strong recovery of the provincial economy, substantial cuts to government spending would be required. While reduced government spending will have an impact across the province, this would set the British Columbia economy up for stronger growth later on. Some Council members noted that cutting government spending during a recession could exacerbate the effects of an economic downturn. In addition, some participants noted the federal and provincial tax cuts would benefit the economy over the medium-term.

2002 Forecast Developments, Economic Forecast Council



* The average of the forecast council was 3.2%. Nine Council members revised their forecasts following announced personal income tax cuts. Their average forecast was 3.5 per cent.

** Six Council members revised their forecasts in January. Their average forecast was 0.7 per cent.

Risks to the Outlook

The Council generally believed that although a turnaround in the U.S. economy, low interest rates and recent tax cuts would contribute to economic growth in the province during the next four years, risks to the outlook remain. British Columbia's economy is more linked to the U.S. economy than a decade ago, so a delayed pick up there is more likely to affect the province. There is also a risk that the U.S. Federal Reserve may raise interest rates too quickly, choking off growth.

Forecast Survey — Participants' Opinions
(number of respondents shown in parenthesis)

All figures are based on annual averages	2002 Range	2002 Average[1]	2003 Range	2003 Average[1]	2004/2005[2] Range	2004/2005[2] Average[1]
United States						
— Real GDP (% change)	0.4 – 2.2	1.1 (16)	2.6 – 4.5	3.5 (15)	2.8 – 3.6	3.3 (13)
— Intended Federal Funds rate (%)	1.5 – 3.5	2.3 (13)	2.4 – 5.2	4.1 (13)	3.5 – 5.8	4.9 (12)
— Housing starts (% change)	−7.1 – 10.0	−2.5 (13)	−4.3 – 8.1	2.9 (12)	−3.0 – 5.0	1.0 (10)
Canada						
— Real GDP (% change)	0.6 – 2.5	1.3 (16)	2.7 – 4.5	3.6 (16)	2.7 – 4.0	3.4 (13)
— Bank of Canada Overnight Target rate (%)	1.8 – 4.3	2.7 (11)	2.4 – 6.1	4.3 (11)	3.3 – 6.7	5.0 (11)
— Exchange rate (US cent/C $)	61.2 – 66.0	64.1 (13)	60.3 – 70.4	65.6 (12)	59.0 – 72.0	66.8 (12)
British Columbia[3]						
— Real GDP (% change)[4]	−0.5 – 2.0	0.7 (16)	2.0 – 4.0	3.0 (16)	2.8 – 4.0	3.3 (12)
— Nominal GDP (% change)	0.5 – 2.4	1.4 (12)	2.7 – 5.7	4.5 (11)	4.0 – 7.0	5.1 (9)
— GDP Deflator (% change)	−0.4 – 1.5	0.6 (12)	0 – 2.7	1.4 (10)	1.0 – 3.0	1.8 (9)
— Personal Income (% change)	1.5 – 2.2	1.8 (8)	3.3 – 4.8	4.1 (8)	4.3 – 5.8	5.1 (6)
— Employment (% change)	−1.3 – 1.5	−0.1 (13)	0.4 – 3.0	1.8 (12)	0.8 – 3.5	2.3 (11)
— Unemployment rate (%)	7.8 – 9.9	8.5 (14)	7.2 – 9.3	8.0 (13)	6.2 – 9.0	7.4 (12)
— Corporate pre-tax profits (% change)	−8.0 – 20.0	2.6 (6)	9.0 – 15.0	12.0 (6)	5.0 – 15.0	10.5 (6)
— Housing starts (% change)	−5.8 – 29.4	8.0 (14)	−1.0 – 50.0	14.4 (13)	0.5 – 21.0	8.7 (11)
— Retail sales (% change)	−2.3 – 4.5	2.6 (12)	3.2 – 7.0	5.1 (11)	3.8 – 8.0	5.5 (9)

[1] Based on responses from participants providing forecasts.
[2] Participants provided an average forecast for 2004 and 2005.
[3] Council members were surveyed on their outlook for net in-migration. While some members provided total net in-migration forecasts, others provided only the interprovincial component. Because of the inconsistency in the responses, the net in-migration figures are not reported.
[4] Two Council members provided British Columbia real GDP forecasts at basic prices, rather than market prices. For simplicity, these forecasts were averaged in with the others.

TABLE 3.1
REVISED FORECAST
(Unaudited)

	2001/02		
	July 30 Update[1]	Second *Quarterly Report*[1]	Third *Quarterly Report*
	($ millions)		
Consolidated revenue fund (CRF):[2]			
Revenue	22,737	22,485	22,690
Expenditure	(24,808)	(24,752)	(25,278)
CRF balance	(2,071)	(2,267)	(2,588)
Crown corporations and agencies:[2]			
Taxpayer-supported	(333)	(215)	(292)
Self-supported commercial	66	(393)	(480)
Total net contribution (loss) of Crown corporations and agencies	(267)	(608)	(772)
Subtotal	(2,338)	(2,875)	(3,358)
Forecast allowance	(500)	(625)	(70)
Deficit before joint trusteeship	(2,838)	(3,500)	(3,428)
Joint trusteeship (one-time adjustment)	1,338	1,464	1,464
Deficit	(1,500)	(2,036)	(1,964)

[1] The July 30 Update and second *Quarterly Report* forecasts for CRF expenditure and joint trusteeship have been increased by $58 million to reflect a reclassification of the amortization of unfunded pension liabilities as part of joint trusteeship. There is no effect on the summary accounts deficit.
[2] Excludes the effect of transfers to the CRF of net assets of Forest Renewal BC as a result of winding-up operations in 2001/02. Inclusion of the adjustment would not affect the summary accounts deficit.

Despite recent developments concerning the physicians' interim arbitration award, the overall fiscal forecast for 2001/02 has remained on track with the second *Quarterly Report* forecast. At $1,964 million, the deficit forecast is now projected to be $464 million higher than the July 30 Update and includes a $70-million forecast allowance for unforeseen developments over the rest of the year. Excluding the $1,464 million one-time pension benefit, the deficit forecast for 2001/02 is $3,428 million.

A number of developments have occurred since the second *Quarterly Report* in November.

- The CRF revenue forecast has increased $205 million, largely due to higher-than-expected income tax assessments for the previous year, partially offset by lower energy revenues.
- The CRF spending forecast has increased $524 million. Costs associated with writing down the government's interests in Skeena Cellulose Inc. and an interim arbitration award for physicians have been partially offset by additional savings in various programs.
- Crown corporation finances show a $164-million deterioration primarily due to larger projected losses for ICBC and Forest Renewal BC.

Chapter 3 REVISED FINANCIAL FORECAST (THIRD QUARTERLY REPORT)

TABLE 3.1
REVISED FORECAST
(Unaudited)

	2001/02		
	July 30 Update[1]	Second *Quarterly Report*[1]	Third *Quarterly Report*
	($ millions)		
Consolidated revenue fund (CRF):[2]			
Revenue	22,737	22,485	22,690
Expenditure	(24,808)	(24,752)	(25,276)
CRF balance	(2,071)	(2,267)	(2,586)
Crown corporations and agencies:[2]			
Taxpayer-supported	(333)	(215)	(292)
Self-supported commercial	66	(393)	(480)
Total net contribution (loss) of Crown corporations and agencies	(267)	(608)	(772)
Subtotal	(2,338)	(2,875)	(3,358)
Forecast allowance	(500)	(625)	(70)
Deficit before joint trusteeship	(2,838)	(3,500)	(3,428)
Joint trusteeship (one-time adjustment)	1,338	1,464	1,464
Deficit	(1,500)	(2,036)	(1,964)

[1] The July 30 Update and second *Quarterly Report* forecasts for CRF expenditure and joint trusteeship have been increased by $58 million to reflect a reclassification of the amortization of unfunded pension liabilities as part of joint trusteeship. There is no effect on the summary accounts deficit.
[2] Excludes the effect of transfers to the CRF of net assets of Forest Renewal BC as a result of winding-up operations in 2001/02. Inclusion of the adjustment would not affect the summary accounts deficit.

Despite recent developments concerning the physicians' interim arbitration award, the overall fiscal forecast for 2001/02 has remained on track with the second *Quarterly Report* forecast. At $1,964 million, the deficit forecast is now projected to be $464 million higher than the July 30 Update and includes a $70-million forecast allowance for unforeseen developments over the rest of the year. Excluding the $1,464 million one-time pension benefit, the deficit forecast for 2001/02 is $3,428 million.

A number of developments have occurred since the second *Quarterly Report* in November.

- The CRF revenue forecast has increased $205 million, largely due to higher-than-expected income tax assessments for the previous year, partially offset by lower energy revenues.
- The CRF spending forecast has increased $524 million. Costs associated with writing down the government's interests in Skeena Cellulose Inc. and an interim arbitration award for physicians have been partially offset by additional savings in various programs.
- Crown corporation finances show a $164-million deterioration primarily due to larger projected losses for ICBC and Forest Renewal BC.

- The forecast allowance has been lowered $555 million in recognition of reduced uncertainties remaining over the final quarter of the year.

Taking into account the third quarter forecast revisions, revenue for the full year is now projected to be $47 million below the July Update (see Table 3.7). Despite significantly lower revenue from natural resources, primarily due to weak energy prices, most of this decline is offset by higher-than-expected income tax revenue.

Overall government spending is now projected to be $468 million above the July 30 Update (see Table 3.8). Excluding costs related to Skeena Cellulose Inc. and the recent physicians' interim arbitration award, spending for the year would have been $102 million below budget due to lower forest fire-fighting costs, debt interest costs and other savings.

In total, Crown corporation and agency net losses are projected to be $505 million higher than the July 30 Update forecast mainly due to lower net income of BC Hydro and higher costs in ICBC, BC Rail and Forest Renewal BC (see Table 3.9).

The following table provides details on developments since the second *Quarterly Report*.

TABLE 3.2
DEVELOPMENTS SINCE THE SECOND *QUARTERLY REPORT* — SUMMARY ACCOUNTS

	($ millions)	
Deficit — second *Quarterly Report* revised forecast		**(2,036)**
Third quarter developments:		
CRF revenue changes:		
— higher prior year income tax assessments partially offset by lower social service tax collections	242	
— lower energy revenue	(132)	
— higher forests revenue	32	
— higher CHST and other federal contributions	46	
— other changes	17	205
CRF spending changes:		
— costs associated with Skeena Cellulose Inc. (guarantee payments, writedowns, environmental liabilities, etc.)	(340)	
— additional costs associated with physicians' interim arbitration award	(230)	
— additional savings in programs	46	(524)
Crown corporations and agencies changes:		
— higher loss of Forest Renewal BC — reduced stumpage revenue and additional wind-up costs	(67)	
— provincial share of larger loss for Skeena Cellulose Inc.	(106)	
— effect of additional provincial loan write-offs for Skeena Cellulose Inc.	100	
— higher loss of ICBC — primarily valuation adjustments for investments including Surrey City Centre	(113)	
— other Crown corporation changes	22	(164)
Forecast allowance — decrease to reflect reduced uncertainties over remainder of the year		555
Deficit — third *Quarterly Report* revised forecast[1]		**(1,964)**

[1] Excluding the one-time gain for joint trusteeship, the deficit would be $3,428 million.

Revenue

The revenue forecast is $205 million higher than the second *Quarterly Report*. Significant changes include:

- *Personal income tax* — up $170 million due to higher-than-assumed final assessments for the 2000 and prior tax-years, and a higher provincial forecast of personal income growth for 2001 and 2002.
- *Corporation income tax* — up $101 million due to higher-than-assumed final assessments for the 1999 and 2000 tax years. However, based on the current forecast for 2001 BC corporate profits, the province may have to repay some of this increase to the federal government in 2002/03.
- *Social service tax* — down $29 million reflecting lower collections.
- *Natural resources* — down $100 million. Revenue from petroleum, natural gas, minerals and electricity sales under the Columbia River Treaty was lowered $132 million mainly due to falling natural gas and electricity prices in 2001/02. This was partially offset by a $32-million improvement in forest revenue based on better-than-expected revenues in the third quarter.
- *Federal contributions* — up $46 million mainly due to a higher estimate of provincial CHST cash entitlements.

Further details on the full year forecast are shown in Table 3.7 and key assumptions are provided in Appendix Table A9.

Expenditure

The spending forecast increased $524 million from the second *Quarterly Report*. Significant changes include:

- *Skeena Cellulose Inc.* — $340 million has been included in the forecast to reflect debt guarantee payments made for Skeena Cellulose Inc. as a result of an agreement signed by the previous government in 1998. This estimate also includes provisions for additional costs of writing down the government's investment and for recognizing environmental and other related liabilities. As noted in previous quarterly reports, the government is continuing to work toward returning the company to the private sector. As developments occur, the forecast will be revised and included in a request to the legislature for a supplementary estimate before the March 31 year-end.
- *Ministry of Health Services* — very late in the budget finalization process, the government received the arbitrator's interim report on compensation for physicians. The amount of the interim arbitration award is significantly higher than expected and will require the ministry to obtain a supplementary estimate before the March 31 year-end.
- *Program savings* — up $46 million due to additional savings identified in various ministries and lower debt interest costs.

The July 30 Update identified additional spending pressures totalling $544 million that would need to be managed by ministries over the year. The largest pressure, estimated at $400 million, was identified for the Ministry of Health Services. Excluding recent developments concerning the physicians' interim arbitration award, ministry pressures have been managed since the July 30 Update, in part through ministry actions and in part through funding from the contingencies vote.

To date, spending commitments totalling $302 million have been allocated to the contingencies vote. Table 3.3 shows that $58 million remains available to offset pressures over the rest of the year.

TABLE 3.3

PRESSURES ALLOCATED TO THE CONTINGENCIES VOTE
CONSOLIDATED REVENUE FUND — 2001/02

($ millions)

Contingencies Allocation:	
Attorney General — legal aid services	8
Attorney General — judiciary	5
Attorney General — *Crown Proceeding Act*	8
Attorney General — other operating pressures	16
Energy and Mines — BC Energy Council	1
Health Services — health services urban specialists and facilities compensation, and nurses' settlement	29
Health Services — health authorities, Pharmacare	60
Management Services — severance and benefits costs, and shared services	24
Public Safety and Solicitor General — operating pressures	5
Transportation — *TransLink* start-up costs and other pressures	12
Transportation — Public Transit — debt interest payments and write-off of deferred start-up costs	34
Elections B.C. — aboriginal treaty referendum	4
Special Offices and other appropriations pressures	1
Government restructuring — work force adjustment programs and other related costs	95
Subtotal	302
Unallocated	58
Total contingencies budget[1]	360

[1] The second *Quarterly Report* identified $168 million for Skeena Cellulose Inc. debt guarantee payments to be funded through the contingencies vote. Including other related costs, this pressure is now estimated at $340 million and will be funded through a supplementary estimate request to the legislature before the March 31 year-end.

Further details on the spending forecasts are shown in Table 3.8 and assumptions are provided in Appendix Table A10.

Crown Corporations and Agencies

Crown corporation and agency net losses (after adjustments) are projected to be $164 million higher than forecast in the second *Quarterly Report*. Significant changes include:

- *Forest Renewal BC* — a $67-million increase in net loss reflects additional spending as part of the planned wind-up of the corporation at year-end.
- *552513 British Columbia Ltd. (Skeena Cellulose Inc.)* — a $106-million increase in net loss reflects additional costs to write down the investment in Skeena Cellulose Inc. In addition, as a result of the government writing off the remainder of its investment, there will be an offsetting gain to the summary accounts of $100 million due to the government's proportional interest in Skeena Cellulose Inc.
- *Insurance Corporation of British Columbia (ICBC)* — a projected $113-million increase in the loss for 2001 reflects a $100-million provision for a decline in the value of the corporation's property investments, which include Surrey City Centre, and higher accident claims costs during October to December 2001.

Further details on the Crown corporation forecasts are shown in Table 3.9 and assumptions are provided in Appendix Table A11.

Capital Spending and Provincial Debt

TABLE 3.4
CAPITAL EXPENDITURES AND PROVINCIAL DEBT — REVISED FORECAST
(Unaudited)

	2001/02		
	July 30 Update	Second *Quarterly Report*	Third Quarterly Report
	($ millions)		
Capital expenditures			
Taxpayer-supported	1,882	1,675	[illegible]
Self-supported	1,021	978	[illegible]
Total capital expenditures	2,903	2,653	[illegible]
Provincial Debt			
Taxpayer-supported	28,220	28,128	[illegible]
Self-supported	8,058	8,453	[illegible]
Forecast allowance	500	625	—
Total provincial debt	36,778	37,206	[illegible]
Taxpayer-supported debt as a per cent of GDP	21.7%	21.8%	[illegible]
Total provincial debt as a per cent of GDP	28.2%	28.9%	[illegible]

Crown Corporations and Agencies

Crown corporation and agency net losses (after adjustments) are projected to be $164 million higher than forecast in the second *Quarterly Report*. Significant changes include:

- *Forest Renewal BC* — a $67-million increase in net loss reflects additional spending as part of the planned wind-up of the corporation at year-end.
- *552513 British Columbia Ltd. (Skeena Cellulose Inc.)* — a $106-million increase in net loss reflects additional costs to write down the investment in Skeena Cellulose Inc. In addition, as a result of the government writing off the remainder of its investment, there will be an offsetting gain to the summary accounts of $100 million due to the government's proportional interest in Skeena Cellulose Inc.
- *Insurance Corporation of British Columbia (ICBC)* — a projected $113-million increase in the loss for 2001 reflects a $100-million provision for a decline in the value of the corporation's property investments, which include Surrey City Centre, and higher accident claims costs during October to December 2001.

Further details on the Crown corporation forecasts are shown in Table 3.9 and assumptions are provided in Appendix Table A11.

Capital Spending and Provincial Debt

TABLE 3.4
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(Unaudited)

	2001/02		
	July 30 Update	Second *Quarterly Report*	**Third *Quarterly Report***
	($ millions)		
Capital expenditures			
Taxpayer-supported	1,882	1,675	**1,594**
Self-supported	1,021	978	**899**
Total capital expenditures	2,903	2,653	**2,493**
Provincial Debt			
Taxpayer-supported	28,220	28,128	**27,370**
Self-supported	8,058	8,453	**9,015**
Forecast allowance	500	625	**—**
Total provincial debt	36,778	37,206	**36,385**
Taxpayer-supported debt as a per cent of GDP	21.7%	21.8%	**21.2%**
Total provincial debt as a per cent of GDP	28.2%	28.9%	**28.2%**

Since the second *Quarterly Report*, the capital spending forecast has been lowered $160 million to total $2.5 billion. Significant changes are shown in Table 3.5.

In total, capital spending for the year is $410 million below the July 30 Update mainly due to lower spending for health facilities, ministry minor capital purchases, *SkyTrain*, BC Hydro and ICBC.

Further details on capital spending are shown in Table 3.10. Information on revised forecasts for major capital projects (those with multi-year budgets totalling $50 million or more) is provided in Table 3.11.

Provincial debt is forecast to total $36.4 billion at year-end. The forecast is $821 million lower than the second *Quarterly Report* due to the removal of the debt forecast allowance, lower borrowing for government operating purposes and reduced capital spending for transportation capital projects. The expected warehouse program balance of $1.1 billion means that a debt forecast allowance to year-end is unnecessary. Significant changes are shown in Table 3.5.

In total, provincial debt will be $393 million below the July 30 Update. Significantly reduced borrowing requirements for government operating purposes and capital spending are partially offset by increased borrowing for commercial Crown corporations and the warehouse program.

Further information on the debt forecast is shown in Table 3.12.

TABLE 3.5
DEVELOPMENTS SINCE THE SECOND *QUARTERLY REPORT* — CAPITAL AND DEBT

	Change	Projected Final Results
	($ millions)	
Capital spending — second *Quarterly Report* forecast		2,683
Third quarter developments:		
Taxpayer-supported		
Health facilities	(31)	
Rapid Transit Project 2000	(54)	
Other	(4)	(81)
Self-supported commercial		
British Columbia Hydro and Power Authority	(65)	
Columbia power projects	(14)	(79)
Capital spending — third *Quarterly Report* revised forecast		2,523
Provincial debt at March 31, 2002 — second *Quarterly Report* forecast		37,208
Third quarter developments:		
Taxpayer-supported debt		
Provincial government operating:		
— assumption of debt related to Skeena Cellulose Inc.	93	
— higher-than-expected federal cash instalments for income taxes (in excess of entitlements)	(253)	
— write-off of public transit deferred start-up costs (non-cash expenditure included in CRF contingencies)	(34)	
— delayed impact on cash requirements of expenditures recorded in 2001/02 (likely impact in 2002/03)	(233)	
Health facilities — reduced capital spending	(30)	
BC Transportation Financing Authority (reduced working capital requirements) and *SkyTrain* (lower capital spending)	(93)	
Skeena Cellulose Inc. — transfer of debt to the province and minority shareholder[1]	(187)	
Other (mainly lower guaranteed debt outstanding)	(21)	
Total taxpayer-supported		(759)
Self-supported commercial debt		
British Columbia Hydro and Power Authority (increased working capital requirements)		65
Warehouse program — higher forecast year-end balance		665
Debt forecast allowance — not required as sufficient funds available in the warehouse account to year-end		(665)
Provincial debt at March 31, 2002 — third *Quarterly Report* revised forecast		36,514

[1] The province assumed $93 million of Skeena Cellulose Inc.'s debt and the Toronto-Dominion Bank is responsible for $94 million.

TABLE 3.5
DEVELOPMENTS SINCE THE SECOND *QUARTERLY REPORT* — CAPITAL AND DEBT

	Change	Projected Final Results
	($ millions)	
Capital spending — second *Quarterly Report* forecast		**2,653**
Third quarter developments:		
Taxpayer-supported		
Health facilities	(31)	
Rapid Transit Project 2000	(54)	
Other	(4)	**(81)**
Self-supported commercial		
British Columbia Hydro and Power Authority	(65)	
Columbia power projects	(14)	**(79)**
Capital spending — third *Quarterly Report* revised forecast		**2,493**
Provincial debt at March 31, 2002 — second *Quarterly Report* forecast		**37,206**
Third quarter developments:		
Taxpayer-supported debt		
Provincial government operating:		
— assumption of debt related to Skeena Cellulose Inc.	93	
— higher-than-expected federal cash instalments for income taxes (in excess of entitlements)	(253)	
— write-off of public transit deferred start-up costs (non-cash expenditure included in CRF contingencies)	(34)	
— delayed impact on cash requirements of expenditures recorded in 2001/02 (likely impact in 2002/03)	(233)	
Health facilities — reduced capital spending	(30)	
BC Transportation Financing Authority (reduced working capital requirements) and *SkyTrain* (lower capital spending)	(93)	
Skeena Cellulose Inc. — transfer of debt to the province and minority shareholder[1]	(187)	
Other (mainly lower guaranteed debt outstanding)	(21)	
Total taxpayer-supported		**(758)**
Self-supported commercial debt		
British Columbia Hydro and Power Authority (increased working capital requirements)		**62**
Warehouse program — higher forecast year-end balance		**500**
Debt forecast allowance — not required as sufficient funds available in the warehouse account to year-end		**(625)**
Provincial debt at March 31, 2002 — third *Quarterly Report* revised forecast		**36,385**

[1] The province assumed $93 million of Skeena Cellulose Inc.'s debt and the Toronto-Dominion Bank is responsible for $94 million.

TABLE 3.6
SUMMARY ACCOUNTS — REVISED FORECAST
(Unaudited)

	Year-to-Date Actual to December 31, 2001				Full-year			
	2001/02				2001/02			
	Budget[1,2]	Actual	Variance	Actual 2000/01[3]	July 30 Update[2]	Revised Forecast	Variance	Actual 2000/01[3]
	($ millions)				($ millions)			
Consolidated revenue fund (CRF):[4]								
Revenue	17,019	**16,789**	(230)	17,409	22,737	**22,690**	(47)	24,027[5]
Expenditure	(18,063)	**(18,169)**	(106)	(16,340)	(24,808)	**(25,276)**	(468)	(22,463)
CRF balance	(1,044)	**(1,380)**	(336)	1,069	(2,071)	**(2,586)**	(515)	1,564
Crown corporations and agencies:[4]								
Taxpayer-supported	(191)	**(2)**	189	(39)	(333)	**(292)**	41	(210)
Self-supported commercial	486	**(162)**	(648)	1,332	66	**(480)**	(546)	157
Total net contribution (loss) of Crown corporations and agencies	295	**(164)**	(459)	1,293	(267)	**(772)**	(505)	(53)
Subtotal	(749)	**(1,544)**	(795)	2,362	(2,338)	**(3,358)**	(1,020)	1,511
Forecast allowance	—	**—**	—	—	(500)	**(70)**	430	—
(Deficit) surplus before joint trusteeship	(749)	**(1,544)**	(795)	2,362	(2,838)	**(3,428)**	(590)	1,511
Joint trusteeship (one-time adjustment)	1,338	**1,464**	126	(112)	1,338	**1,464**	126	(52)
(Deficit) surplus	589	**(80)**	(669)	2,250	(1,500)	**(1,964)**	(464)	1,459

[1] Figures reflect nine-month allocations of the full-year budget as presented in the July 30 *Economic and Fiscal Update* based on planned activities and seasonal patterns.

[2] Amounts for CRF expenditure and joint trusteeship have been increased by $58 million to reflect a reclassification of the amortization of unfunded pension liabilities as part of joint trusteeship. There is no effect on the summary accounts deficit.

[3] Figures for 2000/01 have been restated to reflect the reclassification of 552513 British Columbia Ltd. (Skeena Cellulose Inc.) as a taxpayer-supported Crown corporation from a commercial Crown corporation.

[4] Excludes the effect of transfers to the CRF of net assets of Forest Renewal BC as a result of winding-up operations in 2001/02. Inclusion of the adjustment would not affect the summary accounts deficit.

[5] CRF revenue for 2000/01 has been restated to reflect a $39-million reduction in personal income tax revenue due to a federal error in the calculation of personal income tax remittances to BC resulting from capital gains refunds associated with mutual fund trusts for the 2000 tax year.

TABLE 3.7
CONSOLIDATED REVENUE FUND REVENUE BY SOURCE
(Unaudited)

	Year-to-Date Actual to December 31, 2001				Full-year			
	2001/02				2001/02			
	Budget[1]	Actual[2]	Variance	Actual 2000/01	July 30 Update	Revised Forecast[2]	Variance	Actual 2000/01
	($ millions)				($ millions)			
Taxation:								
Personal income	3,725	**3,883**	158	4,407	4,935	**5,355**	420	5,976[3]
Corporation income	932	**965**	33	869	1,154	**1,520**	366	1,054
Social service	2,835	**2,730**	(105)	2,765	3,664	**3,535**	(129)	3,617
Other	2,425	**2,492**	67	2,477	3,155	**3,153**	(2)	3,247
	9,917	**10,070**	**153**	**10,518**	**12,908**	**13,563**	**655**	**13,894**
Natural resources:								
Natural gas royalties	970	**682**	(288)	696	1,323	**805**	(518)	1,249
Permits and fees	280	**263**	(17)	239	351	**340**	(11)	462
Petroleum royalties and minerals	143	**128**	(15)	149	192	**165**	(27)	189
Forests	783	**762**	(21)	778	1,150	**1,082**	(68)	1,153
Columbia River Treaty	414	**338**	(76)	403	475	**355**	(120)	632
Water resources, *Wildlife Act* and other	243	**234**	(9)	234	303	**286**	(17)	290
	2,833	**2,407**	**(426)**	**2,439**	**3,794**	**3,033**	**(761)**	**3,975**
Other revenue:								
Medical Services Plan premiums	679	**718**	39	682	904	**947**	43	895
Other	666	**643**	(23)	697	922	**894**	(28)	966
	1,345	**1,361**	**16**	**1,379**	**1,826**	**1,841**	**15**	**1,861**
Contributions from Crown corporations:	**817**	**838**	**21**	**832**	**1,411**	**1,424**	**13**	**1,500**
Contributions from the Federal government:								
Canada health and social transfer	1,983	**1,993**	10	2,071	2,620	**2,660**	40	2,619
Other	124	**120**	(4)	110	178	**169**	(9)	178
	2,107	**2,113**	**6**	**2,181**	**2,798**	**2,829**	**31**	**2,797**
Total Revenue	**17,019**	**16,789**	**(230)**	**17,409**	**22,737**	**22,690**	**(47)**	**24,027**

[1] Figures reflect nine-month allocations of the full-year budget as presented in the July 30 *Economic and Fiscal Update* based on planned activity and seasonal patterns.

[2] Figures for 2001/02 exclude dedicated revenue collected on behalf of, and transferred to, Crown corporations and other agencies and jurisdictions including: Forest Renewal BC, Tourism British Columbia, BC Transportation Financing Authority, British Columbia Transit, British Columbia Ferry Corporation, the Greater Vancouver Transportation Authority (*TransLink*), and the British Columbia Oil and Gas Commission. At December 31, 2001 these amounts totaled $655 million; the full-year forecast is $853 million.

[3] CRF revenue for 2000/01 has been restated to reflect a $39-million reduction in personal income tax revenue due to a federal error in the calculation of personal income tax remittances to BC resulting from capital gains refunds associated with mutual fund trusts for the 2000 tax year.

TABLE 3.6
SUMMARY ACCOUNTS — REVISED FORECAST
(Unaudited)

	Year-to-Date Actual to December 31, 2001				Full-year			
	2001/02				2001/02			
	Budget[1,2]	Actual	Variance	Actual 2000/01[3]	July 30 Update[2]	Revised Forecast	Variance	Actual 2000/01[3]
	($ millions)				($ millions)			
Consolidated revenue fund (CRF):[4]								
Revenue	17,019	16,789	(230)	17,409	22,737	22,690	(47)	24,027[5]
Expenditure	(18,063)	(18,169)	(106)	(16,340)	(24,808)	(25,276)	(468)	(22,463)
CRF balance	(1,044)	(1,380)	(336)	1,069	(2,071)	(2,586)	(515)	1,564
Crown corporations and agencies:[4]								
Taxpayer-supported	(191)	(2)	189	(39)	(333)	(292)	41	(210)
Self-supported commercial	486	(162)	(648)	1,332	66	(480)	(546)	157
Total net contribution (loss) of Crown corporations and agencies	295	(164)	(459)	1,293	(267)	(772)	(505)	(53)
Subtotal	(749)	(1,544)	(795)	2,362	(2,338)	(3,358)	(1,020)	1,511
Forecast allowance	—	—	—	—	(500)	(70)	430	—
(Deficit) surplus before joint trusteeship	(749)	(1,544)	(795)	2,362	(2,838)	(3,428)	(590)	1,511
Joint trusteeship (one-time adjustment)	1,338	1,464	126	(112)	1,338	1,464	126	(52)
(Deficit) surplus	589	(80)	(669)	2,250	(1,500)	(1,964)	(464)	1,459

[1] Figures reflect nine-month allocations of the full-year budget as presented in the July 30 *Economic and Fiscal Update* based on planned activities and seasonal patterns.

[2] Amounts for CRF expenditure and joint trusteeship have been increased by $58 million to reflect a reclassification of the amortization of unfunded pension liabilities as part of joint trusteeship. There is no effect on the summary accounts deficit.

[3] Figures for 2000/01 have been restated to reflect the reclassification of 552513 British Columbia Ltd. (Skeena Cellulose Inc.) as a taxpayer-supported Crown corporation from a commercial Crown corporation.

[4] Excludes the effect of transfers to the CRF of net assets of Forest Renewal BC as a result of winding-up operations in 2001/02. Inclusion of the adjustment would not affect the summary accounts deficit.

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(Unaudited)

	Year-to-Date Actual to December 31, 2001				Full-year			
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Social service	2,835	2,730	(105)	2,765	3,664	3,535	(129)	3,617
Other	2,425	2,492	67	2,477	3,155	3,153	(2)	3,247
	9,917	**10,070**	**153**	**10,518**	**12,908**	**13,563**	**655**	**13,894**
Natural resources:								
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Petroleum royalties and minerals	143	128	(15)	149	192	165	(27)	189
Forests	783	762	(21)	778	1,150	1,082	(68)	1,153
Columbia River Treaty	414	338	(76)	403	475	355	(120)	632
Water resources, *Wildlife Act* and other	243	234	(9)	234	303	286	(17)	290
	2,833	**2,407**	**(426)**	**2,499**	**3,794**	**3,033**	**(761)**	**3,975**
Other revenue:								
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Contributions from Crown corporations:	**817**	**838**	**21**	**832**	**1,411**	**1,424**	**13**	**1,500**
Contributions from the Federal government:								
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Other	124	120	(4)	110	178	169	(9)	178
	2,107	**2,113**	**6**	**2,181**	**2,798**	**2,829**	**31**	**2,797**
Total Revenue	**17,019**	**16,789**	**(230)**	**17,409**	**22,737**	**22,690**	**(47)**	**24,027**

[1] Figures reflect nine-month allocations of the full-year budget as presented in the July 30 *Economic and Fiscal Update* based on planned activity and seasonal patterns.

[2] Figures for 2001/02 exclude dedicated revenue collected on behalf of, and transferred to, Crown corporations and other agencies and jurisdictions including: Forest Renewal BC, Tourism British Columbia, BC Transportation Financing Authority, British Columbia Transit, British Columbia Ferry Corporation, the Greater Vancouver Transportation Authority (*TransLink*), and the British Columbia Oil and Gas Commission. At December 31, 2001 these amounts totaled $655 million; the full-year forecast is $853 million.

[3] CRF revenue for 2000/01 has been restated to reflect a $39-million reduction in personal income tax revenue due to a federal error in the calculation of personal income tax remittances to BC resulting from capital gains refunds associated with mutual fund trusts for the 2000 tax year.

TABLE 3.8
CONSOLIDATED REVENUE FUND EXPENDITURE BY MINISTRY
(Unaudited)

	Year-to-Date Actual to December 31, 2001				Full-year			
	2001/02				2001/02			
	July 30 Update[1,2]	Actual[2]	Variance	Actual 2000/01[3]	July 30 Update[2]	Revised Forecast[2]	Variance	Actual 2000/01[3]
	($ millions)				($ millions)			
Legislation	33	26	(7)	25	44	44	—	36
Officers of the Legislature	41	36	(5)	18	51	51	—	26
Office of the Premier	14	13	(1)	12	20	20	—	15
Advanced Education	1,373	1,377	4	1,318	1,894	1,894	—	1,902
Agriculture, Food and Fisheries	64	54	(10)	63	82	82	—	82
Attorney General	387	386	(1)	373	552	552	—	603
Children and Family Development	1,128	1,119	(9)	985	1,551	1,542	(9)	1,352
Community, Aboriginal and Women's Services	404	369	(35)	327	562	562	—	465
Competition, Science and Enterprise	52	45	(7)	49	72	72	—	84
Education	3,566	3,508	(58)	3,399	4,844	4,844	—	4,612
Energy and Mines	51	47	(4)	26	67	67	—	57
Finance	35	29	(6)	28	47	45	(2)	43
Forests	415	383	(32)	375	539	507	(32)	530
Health Planning	3	2	(1)	3	5	4	(1)	5
Health Services	7,083	7,080	(3)	6,440	9,513	9,743	230	8,798
Human Resources	1,429	1,403	(26)	1,367	1,939	1,931	(8)	1,871
Management Services	47	58	11	32	64	64	—	57
Provincial Revenue	37	35	(2)	35	50	49	(1)	41
Public Safety and Solicitor General	365	357	(8)	332	499	498	(1)	462
Skills Development and Labour	21	21	—	22	30	30	—	30
Sustainable Resource Management	102	92	(10)	80	134	131	(3)	109
Transportation	502	509	7	456	672	670	(2)	628
Water, Land and Air Protection	167	158	(9)	127	216	214	(2)	175
Management of Public Funds and Debt	604	581	(23)	676	823	798	(25)	889
Contingencies (All Ministries) and New Programs	—	8	8	1	360	360	—	—
Skeena Cellulose Inc. Assistance	—	340	340	—	—	340	340	—
Other Appropriations[4]	140	133	(7)	(229)	178	162	(16)	(409)
Total Expenditure	**18,063**	**18,169**	**106**	**16,340**	**24,808**	**25,276**	**468**	**22,463**

[1] Figures reflect nine-month allocations of the full-year budget as presented in the July 30 *Economic and Fiscal Update* based on planned activities and seasonal patterns. However, the entire contingencies budget is allocated to the end of the fiscal year.

[2] Amounts for CRF expenditure and joint trusteeship have been increased by $58 million (year-to-date - $45 million) to reflect a reclassification of the amortization of unfunded pension liabilities as part of joint trusteeship. There is no effect on the summary accounts deficit.

[3] Figures have been restated to reflect the government organization as of December 31, 2001. Year-to-date expenditure has also been restated primarily to reflect the reclassification of certain capital expenditures as ministry operating maintenance costs and the impact of public service pension joint trusteeship agreement. As a result, year-to-date (to December 31, 2001) comparative expenditure in 2000/01 has been reduced by $100 million.

[4] Includes BC Family Bonus, various boards, commissions, other votes and special accounts. The large reduction in 2000/01 reflects the effect of pension accounting changes in 2000/01.

TABLE 3.9
CROWN CORPORATION AND AGENCY RESULTS
(Unaudited)

	Year-to-Date Actual to December 31, 2001				Full-year			
	2001/02				2001/02			
	Budget[1]	Actual	Variance	Actual 2000/01[2]	July 30 Update	Revised Forecast[3]	Variance	Actual 2000/01[2]
	($ millions)				($ millions)			
Taxpayer-supported:[4]								
British Columbia Buildings Corporation	30	31	1	42	40	38	(2)	51
British Columbia Ferry Corporation	23	49	26	49	3	17	14	11
BC Transportation Financing Authority	20	22	2	17	—	1	1	1
Forest Renewal BC	(86)	(73)	13	(66)	(107)	(198)	(91)	(64)
552513 British Columbia Ltd. (Skeena Cellulose Inc.)	(44)	(137)	(93)	5	(53)	(142)	(89)	—
Other	23	35	12	73	(7)	(15)	(8)	49
	(34)	(73)	(39)	120	(124)	(299)	(175)	48
Less: Contributions paid to CRF	—	—	—	—	(18)	(22)	(4)	(69)
Accounting adjustments[5]	(157)	(149)	8	(159)	(191)	(191)	—	(189)
Add: Skeena assistance	—	220	220	—	—	220	220	—
Total taxpayer-supported	(191)	(2)	189	(39)	(333)	(292)	41	(210)
Self-supported commercial:								
British Columbia Hydro and Power Authority	427	181	(246)	564	420	395	(25)	446
Liquor Distribution Branch	498	510	12	515	616	627	11	642
British Columbia Lottery Corporation	423	445	22	413	585	600	15	562
British Columbia Railway Company	1	(118)	(119)	(7)	1	(118)	(119)	(7)
Insurance Corporation of British Columbia	35	(258)	(293)	131	35	(258)	(293)	139
Other	1	2	1	6	3	—	(3)	4
	1,385	762	(623)	1,622	1,660	1,246	(414)	1,786
Less: Contributions paid to CRF	(816)	(838)	(22)	(832)	(1,393)	(1,402)	(9)	(1,431)
Accounting adjustments:								
— Transfer of BC Hydro earnings to (from) rate stabilization account	—	—	—	762	(45)	(195)	(150)	103
— Other accounting adjustments[6]	(83)	(86)	(3)	(220)[7]	(156)	(129)	27	(301)[7]
Total self-supported commercial	486	(182)	(648)	1,332	66	(480)	(546)	157
Total net (loss) contribution of Crown corporations and agencies	295	(184)	(459)	1,293	(267)	(772)	(505)	(53)

[1] Figures reflect nine-month allocations of the full-year budget as presented in the July 30 *Economic and Fiscal Update* based on planned activities and seasonal patterns.

[2] Figures for 2000/01 have been restated to reflect the reclassification of 552513 British Columbia Ltd. (Skeena Cellulose Inc.) as a taxpayer-supported Crown corporation from a commercial Crown corporation.

[3] Based on information provided by Crown corporations and agencies. These forecasts may be revised as a result of operating developments over the rest of the year, as well as decisions taken by the government and the boards of directors of the various Crown corporations and agencies.

[4] Excludes the effect of transfers to the CRF of net assets of Forest Renewal BC and Fisheries Renewal BC as a result of winding-up operations in 2001/02. Inclusion of these adjustments would not affect the summary accounts deficit.

[5] Primarily includes adjustments to record the amortization of the cost of highways transferred to the BC Transportation Financing Authority in 1998/99.

[6] Includes transfers of British Columbia Lottery Corporation revenue to charities and local governments and adjustments to the Insurance Corporation of British Columbia and the British Columbia Railway Company to adjust their reporting results from a calendar year basis to the government's fiscal reporting period.

[7] The 2000/01 adjustment was unusually high due to the one-time investment gains reported by the Insurance Corporation of British Columbia in the first quarter of the 2000 calendar year.

TABLE 3.8
CONSOLIDATED REVENUE FUND EXPENDITURE BY MINISTRY
(Unaudited)

	Year-to-Date Actual to December 31, 2001				Full-year			
	2001/02				2001/02			
	July 30 Update[1,2]	Actual[2]	Variance	Actual 2000/01[3]	July 30 Update[2]	Revised Forecast[2]	Variance	Actual 2000/01[3]
	($ millions)				($ millions)			
Legislation	33	26	(7)	25	44	44	—	36
Officers of the Legislature	41	36	(5)	18	51	51	—	26
Office of the Premier	14	13	(1)	12	20	20	—	15
Advanced Education	1,373	1,377	4	1,318	1,894	1,894	—	1,902
Agriculture, Food and Fisheries	64	54	(10)	63	82	82	—	82
Attorney General	387	386	(1)	373	552	552	—	603
Children and Family Development	1,128	1,119	(9)	985	1,551	1,542	(9)	1,352
Community, Aboriginal and Women's Services	404	369	(35)	327	562	562	—	465
Competition, Science and Enterprise	52	45	(7)	49	72	72	—	84
Education	3,566	3,508	(58)	3,399	4,844	4,844	—	4,612
Energy and Mines	51	47	(4)	26	67	67	—	57
Finance	35	29	(6)	28	47	45	(2)	43
Forests	415	383	(32)	375	539	507	(32)	530
Health Planning	3	2	(1)	3	5	4	(1)	5
Health Services	7,083	7,080	(3)	6,440	9,513	9,743	230	8,798
Human Resources	1,429	1,403	(26)	1,367	1,939	1,931	(8)	1,871
Management Services	47	58	11	32	64	64	—	57
Provincial Revenue	37	35	(2)	35	50	49	(1)	41
Public Safety and Solicitor General	365	357	(8)	332	499	498	(1)	462
Skills Development and Labour	21	21	—	22	30	30	—	30
Sustainable Resource Management	102	92	(10)	80	134	131	(3)	109
Transportation	502	509	7	456	672	670	(2)	628
Water, Land and Air Protection	167	158	(9)	127	216	214	(2)	175
Management of Public Funds and Debt	604	581	(23)	676	823	798	(25)	889
Contingencies (All Ministries) and New Programs	—	8	8	1	360	360	—	—
Skeena Cellulose Inc. Assistance	—	340	340	—	—	340	340	—
Other Appropriations[4]	140	133	(7)	(229)	178	162	(16)	(409)
Total Expenditure	**18,063**	**18,169**	**106**	**16,340**	**24,808**	**25,276**	**468**	**22,463**

[1] Figures reflect nine-month allocations of the full-year budget as presented in the July 30 *Economic and Fiscal Update* based on planned activities and seasonal patterns. However, the entire contingencies budget is allocated to the end of the fiscal year.

[2] Amounts for CRF expenditure and joint trusteeship have been increased by $58 million (year-to-date - $45 million) to reflect a reclassification of the amortization of unfunded pension liabilities as part of joint trusteeship. There is no effect on the summary accounts deficit.

[3] Figures have been restated to reflect the government organization as of December 31, 2001. Year-to-date expenditure has also been restated primarily to reflect the reclassification of certain capital expenditures as ministry operating maintenance costs and the impact of public service pension joint trusteeship agreement. As a result, year-to-date (to December 31, 2001) comparative expenditure in 2000/01 has been reduced by $100 million.

[4] Includes BC Family Bonus, various boards, commissions, other votes and special accounts. The large reduction in 2000/01 reflects the effect of pension accounting changes in 2000/01.

TABLE 3.9
CROWN CORPORATION AND AGENCY RESULTS
(Unaudited)

	Year-to-Date Actual to December 31, 2001				Full-year			
	2001/02				2001/02			
	Budget[1]	Actual	Variance	Actual 2000/01[2]	July 30 Update	Revised Forecast[3]	Variance	Actual 2000/01[2]
	($ millions)				($ millions)			
Taxpayer-supported:[4]								
British Columbia Buildings Corporation	30	31	1	42	40	38	(2)	51
British Columbia Ferry Corporation	23	49	26	49	3	17	14	11
BC Transportation Financing Authority	20	22	2	17	—	1	1	1
Forest Renewal BC	(86)	(73)	13	(66)	(107)	(198)	(91)	(64)
552513 British Columbia Ltd. (Skeena Cellulose Inc.)	(44)	(137)	(93)	5	(53)	(142)	(89)	—
Other	23	35	12	73	(7)	(15)	(8)	49
	(34)	(73)	(39)	120	(124)	(299)	(175)	48
Less: Contributions paid to CRF	—	—	—	—	(18)	(22)	(4)	(69)
Accounting adjustments[5]	(157)	(149)	8	(159)	(191)	(191)	—	(189)
Add: Skeena assistance	—	220	220	—	—	220	220	—
Total taxpayer-supported	(191)	(2)	189	(39)	(333)	(292)	41	(210)
Self-supported commercial:								
British Columbia Hydro and Power Authority	427	181	(246)	564	420	395	(25)	446
Liquor Distribution Branch	498	510	12	515	616	627	11	642
British Columbia Lottery Corporation	423	445	22	413	585	600	15	562
British Columbia Railway Company	1	(118)	(119)	(7)	1	(118)	(119)	(7)
Insurance Corporation of British Columbia	35	(258)	(293)	131	35	(258)	(293)	139
Other	1	2	1	6	3	—	(3)	4
	1,385	762	(623)	1,622	1,660	1,246	(414)	1,786
Less: Contributions paid to CRF	(816)	(838)	(22)	(832)	(1,393)	(1,402)	(9)	(1,431)
Accounting adjustments:								
— Transfer of BC Hydro earnings to (from) rate stabilization account	—	—	—	762	(45)	(195)	(150)	103
— Other accounting adjustments[6]	(83)	(86)	(3)	(220)[7]	(156)	(129)	27	(301)[7]
Total self-supported commercial	486	(162)	(648)	1,332	66	(480)	(546)	157
Total net (loss) contribution of Crown corporations and agencies	295	(164)	(459)	1,293	(267)	(772)	(505)	(53)

[1] Figures reflect nine-month allocations of the full-year budget as presented in the July 30 *Economic and Fiscal Update* based on planned activities and seasonal patterns.

[2] Figures for 2000/01 have been restated to reflect the reclassification of 552513 British Columbia Ltd. (Skeena Cellulose Inc.) as a taxpayer-supported Crown corporation from a commercial Crown corporation.

[3] Based on information provided by Crown corporations and agencies. These forecasts may be revised as a result of operating developments over the rest of the year, as well as decisions taken by the government and the boards of directors of the various Crown corporations and agencies.

[4] Excludes the effect of transfers to the CRF of net assets of Forest Renewal BC and Fisheries Renewal BC as a result of winding-up operations in 2001/02. Inclusion of these adjustments would not affect the summary accounts deficit.

[5] Primarily includes adjustments to record the amortization of the cost of highways transferred to the BC Transportation Financing Authority in 1998/99.

[6] Includes transfers of British Columbia Lottery Corporation revenue to charities and local governments and adjustments to the Insurance Corporation of British Columbia and the British Columbia Railway Company to adjust their reporting results from a calendar year basis to the government's fiscal reporting period.

[7] The 2000/01 adjustment was unusually high due to the one-time investment gains reported by the Insurance Corporation of British Columbia in the first quarter of the 2000 calendar year.

TABLE 3.10
GOVERNMENT, CROWN CORPORATIONS AND AGENCIES — CAPITAL EXPENDITURES
(Unaudited)

	Year-to-Date Actual to December 31, 2001				Full-year			
	2001/02				2001/02			
	Budget[1]	Actual	Variance	Actual 2000/01[2]	July 30 Update	Revised Forecast	Variance	Actual 2000/01
	($ millions)				($ millions)			
Taxpayer-supported:								
Capital plan:[3]								
Education	286	255	(31)	348	428	402	(26)	388
Health	173	121	(52)	141	274	200	(74)	365
BC Transportation Financing Authority	285	301	16	380	331	331	—	474
British Columbia Ferry Corporation	67	31	(36)	38	89	68	(21)	59
Rapid Transit Project 2000	209	200	(9)	264	309	231	(78)	348
Other[4]	71	49	(22)	37	93	75	(18)	69
Net capital plan	1,091	957	(134)	1,208	1,524	1,307	(217)	1,703
Other taxpayer-supported:								
Government operating (ministries)	179	115	(64)	72	293	233	(60)	183
552513 British Columbia Ltd. (Skeena Cellulose Inc.)	12	6	(6)	69	17	7	(10)	81
Other[5]	19	18	(1)	30	48	47	(1)	61
Total taxpayer-supported	1,301	1,096	(205)	1,379	1,882	1,594	(288)	2,028
Self-supported commercial:								
British Columbia Hydro and Power Authority	460	364	(96)	278	600	535	(65)	412
British Columbia Railway Company	55	52	(3)	110	72	73	1	122
Columbia River power projects[6]	120	108	(12)	96	141	128	(13)	126
Insurance Corporation of British Columbia[7]	112	74	(38)	35	151	107	(44)	78
British Columbia Lottery Corporation	19	12	(7)	11	26	26	—	13
Liquor Distribution Branch	27	18	(9)	7	31	30	(1)	20
Total self-supported commercial	793	628	(165)	537	1,021	899	(122)	771
Total capital expenditures	2,094	1,724	(370)	1,916	2,903	2,493	(410)	2,799

[1] Reflects nine-month allocation of the full-year budget as presented in the July 30 *Economic and Fiscal Update*, based on planned activities and seasonal patterns.
[2] Restated to be consistent with the presentation used for 2001/02.
[3] Net of expenditures by hospital districts for cost-shared projects and capital spending on behalf of, and recovered from, the Greater Vancouver Transportation Authority (*TransLink*).
[4] British Columbia Buildings Corporation, Ministry of Attorney General, Ministry of Public Safety and Solicitor General, Ministry of Children and Family Development, British Columbia Transit and the Pacific National Exhibition.
[5] Includes British Columbia Housing Management Commission and Provincial Rental Housing Corporation (net of construction costs recoverable from non-profit societies).
[6] Columbia Power Corporation and Columbia Basin Trust.
[7] Includes ICBC Properties Ltd.

TABLE 3.10
GOVERNMENT, CROWN CORPORATIONS AND AGENCIES — CAPITAL EXPENDITURES
(Unaudited)

	Year-to-Date Actual to December 31, 2001				Full-year			
	2001/02				2001/02			
	Budget[1]	Actual	Variance	Actual 2000/01[2]	July 30 Update	Forecast	Variance	Actual 2000/01
	($ millions)				($ millions)			
Taxpayer-supported:								
Capital plan:[3]								
Education	286	255	(31)	348	428	402	(26)	388
Health	173	121	(52)	141	274	200	(74)	365
BC Transportation Financing Authority	285	301	16	380	331	331	—	474
British Columbia Ferry Corporation	67	31	(36)	38	89	68	(21)	59
Rapid Transit Project 2000	209	200	(9)	264	309	231	(78)	348
Other[4]	71	49	(22)	37	93	75	(18)	69
Net capital plan	1,091	957	(134)	1,208	1,524	1,307	(217)	1,703
Other taxpayer-supported:								
Government operating (ministries)	179	115	(64)	72	293	233	(60)	183
552513 British Columbia Ltd. (Skeena Cellulose Inc.)	12	6	(6)	69	17	7	(10)	81
Other[5]	19	18	(1)	30	48	47	(1)	61
Total taxpayer-supported	**1,301**	**1,096**	**(205)**	**1,379**	**1,882**	**1,594**	**(288)**	**2,028**
Self-supported commercial:								
British Columbia Hydro and Power Authority	460	364	(96)	278	600	535	(65)	412
British Columbia Railway Company	55	52	(3)	110	72	73	1	122
Columbia River power projects[6]	120	108	(12)	96	141	128	(13)	126
Insurance Corporation of British Columbia[7]	112	74	(38)	35	151	107	(44)	78
British Columbia Lottery Corporation	19	12	(7)	11	26	26	—	13
Liquor Distribution Branch	27	18	(9)	7	31	30	(1)	20
Total self-supported commercial	**793**	**628**	**(165)**	**537**	**1,021**	**899**	**(122)**	**771**
Total capital expenditures	**2,094**	**1,724**	**(370)**	**1,916**	**2,903**	**2,493**	**(410)**	**2,799**

[1] Reflects nine-month allocation of the full-year budget as presented in the July 30 *Economic and Fiscal Update*, based on planned activities and seasonal patterns.
[2] Restated to be consistent with the presentation used for 2001/02.
[3] Net of expenditures by hospital districts for cost-shared projects and capital spending on behalf of, and recovered from, the Greater Vancouver Transportation Authority (*TransLink*).
[4] British Columbia Buildings Corporation, Ministry of Attorney General, Ministry of Public Safety and Solicitor General, Ministry of Children and Family Development, British Columbia Transit and the Pacific National Exhibition.
[5] Includes British Columbia Housing Management Commission and Provincial Rental Housing Corporation (net of construction costs recoverable from non-profit societies).
[6] Columbia Power Corporation and Columbia Basin Trust.
[7] Includes ICBC Properties Ltd.

TABLE 3.11
CAPITAL EXPENDITURE PROJECTS GREATER THAN $50 MILLION

NOTE: Information in bold type denotes changes from the second *Quarterly Report*.

Project[1]	Start Date	Forecast Completion Date	Cumulative Spending at Mar. 31, 2001[2]	Estimated Spending April 1 to Dec. 31, 2001	Estimated Cumulative Spending at Dec. 31, 2001	Total Project Budget[3]	Total Project Forecast[3]
			($ millions)				
Transportation							
Vancouver Island Highway	1991	Dec. 2002	1,214	32	1,246	1,308[4]	**1,264**
Lion's Gate Bridge	May 1998	Dec. 2001[5]	99	22	121	125	125
Port Mann Bridge/Cape Horn Interchange	Aug. 1998	March 2002	46	12	58	61	61
SkyTrain Extension — Phase 1	Sept. 1998	Dec. 2002	811	214	1,025	1,167	1,167
***SkyTrain* Systems Upgrades[6]**	**Oct. 1999**	**June 2002**	**61**	**12**	**73**	**94**	**90**
SkyTrain Fleet Expansion[6]	Oct. 1998	**March 2002**	63	1	64	68	68
Nisga'a Highway	Aug. 1998	Fall 2005	14	3	17	52	52
BC Rail — acquisition of oriented-strand board cars	**Spring 2003**	**Winter 2003**	—	—	—	**52**	**52**
Total transportation			2,308	296	2,604	2,927	2,879
Health Facilities[7]							
Vancouver General Hospital, Jim Pattison Pavilion	Sept. 2000	Fall 2004[8]	12	14	26	156	156
Royal Jubilee Hospital (Victoria)	Aug. 1999	**April 2002**	64	26	90	116	116
Surrey Memorial Hospital	July 1998	Nov. 2001	69	8	77	77	77
Prince George Regional Hospital	Spring 2001	March 2004	6	8	14	50	50
Fraser Valley Health Centre/Eastern Fraser Valley Cancer Centre[9]	April 2001	**March 2007**	—	—	—	**211**	**211**
Total health facilities			151	56	207	610	610
Power Generation							
British Columbia Hydro and Power Authority							
— Stave Falls Replacement	Feb. 1995	2003[10]	137	1	138	181	144
— Burrard Upgrade (including 6 SCRs)[11]	June 1993	March 2003	151	14	165	222	212
— Island Generation Project[12]	April 2000[13]	Nov. 2004	5	14	19	180	**180**
— Georgia Strait Pipeline Crossing[12]	April 2000[13]	**Oct. 2004**	9	7	16	131	**132**
— Addition of Fourth Generating Unit at Seven Mile Dam	Feb. 1995[13]	March 2003	9	17	26	97	97
Arrow Lakes Power Company[14]							
— Arrow Lakes Generating Station	Feb. 1999	Dec. 2002	164	90	254	270	270
Total power generation			475	143	618	1,081	1,035
Other							
ICBC Properties Ltd.							
— Surrey City Centre	Sept. 1999	Jan. 2003	85	55	140	253	253

[1] Only projects that have been approved by Treasury Board are included in this table. Ministry service plans may include projects that have not yet received final approval.
[2] Total expenditures since commencement of each project.
[3] Represents sum of annual budgeted expenditures to complete each project.
[4] Adjusted for inflation. Budget in 1993 dollars is $1.2 billion.
[5] Final paving on the bridge will occur in the spring of 2002, but the project was substantially completed in December 2001.
[6] Funds for these projects are fully recoverable from the Greater Vancouver Transportation Authority (*TransLink*). In previous reports, the systems upgrades project did not appear in the major capital projects list.
[7] The Nelson Health Campus, previously included on the major projects list, has been removed pending further review.
[8] Project components were completed starting in December 2000 and will continue over the next three years.
[9] Previously only the Fraser Valley Health centre was reported in the major projects list. Amounts have been revised to include the Eastern Fraser Valley Cancer Centre. Alternative procurement options are also under review for this project.
[10] In service as of December 1999. Additional costs will be incurred, but the project is substantially completed.
[11] Burrard generating station upgrade includes installation of selective catalytic reduction (SCRs) systems on all 6 generating units. SCRs reduce emissions from the units and are required to meet the air quality standards for the Greater Vancouver Regional District.
[12] Joint ventures with private sector partners. Amounts shown represent BC Hydro's 50-per-cent share of the costs; however, only partial funding has been approved to date.
[13] Initial planning, preliminary field work and engineering design costs. Physical construction will begin at a later date.
[14] A joint venture of the Columbia Power Corporation and the Columbia Basin Trust.

TABLE 3.12
PROVINCIAL DEBT[1] OUTSTANDING
(Unaudited)

	Debt Outstanding March 31, 2001	Year-to-Date Actual to December 31, 2001				Revised Forecast to March 31, 2002			
			Debt Outstanding				Debt Outstanding		
		Net Change[2]	Actual	Budget[3]	Variance Above/ (Below) Budget	Full-year Net Change[2]	Revised Forecast	July 30 Update	Variance Above/ (Below) July 30 Update
	($ millions)	($ millions)				($ millions)			
Taxpayer-supported debt									
Provincial government operating[4]									
Government operating purposes	12,113	1,150	13,263	13,077	186	1,502	13,615	14,142	(527)
Skeena Cellulose debt assistance[5]	—	261	261	—	261	261	261	—	261
	12,113	1,411	13,524	13,077	447	1,763	13,876	14,142	(266)
Education facilities									
Schools	3,880	164	4,044	4,047	(3)	272	4,152	4,130	22
Post-secondary institutions	1,383	55	1,438	1,452	(14)	74	1,457	1,475	(18)
	5,263	219	5,482	5,499	(17)	346	5,609	5,605	4
Health facilities	1,780	103	1,883	1,934	(51)	170	1,950	2,021	(71)
Highways, ferries and public transit									
BC Transportation Financing Authority	2,197	132	2,329	2,435	(106)	323	2,520	2,559	(39)
British Columbia Ferry Corporation	21	(2)	19	48	(29)	13	34	58	(24)
British Columbia Transit	75	(2)	73	80	(7)	7	82	82	—
Public transit	948	(6)	942	942	—	(10)	938	941	(3)
SkyTrain extension	836	238	1,074	1,088	(14)	235	1,071	1,144	(73)
Rapid Transit Project 2000	114	(48)	66	68	(2)	(108)	6	—	6
	4,191	312	4,503	4,661	(158)	460	4,651	4,784	(133)
Other									
British Columbia Buildings Corporation	610	(59)	551	594	(43)	(13)	597	614	(17)
552513 British Columbia Ltd. (Skeena Cellulose Inc.)[5]	337	(337)	—	355	(355)	(337)	—	356	(356)
Social housing[6]	265	21	286	281	5	20	285	281	4
Homeowner Protection Office	71	33	104	79	25	41	112	82	30
Universities and colleges — fiscal agency loans	124	(9)	115	122	(7)	(9)	115	121	(6)
Other[7]	243	(38)	205	239	(34)	(68)	175	214	(39)
	1,650	(389)	1,261	1,670	(409)	(366)	1,284	1,668	(384)
Total taxpayer-supported debt	**24,997**	**1,656**	**26,653**	**26,841**	**(188)**	**2,373**	**27,370**	**28,220**	**(850)**
Self-supported debt									
Commercial Crown corporations and agencies									
British Columbia Hydro and Power Authority	6,852	293	7,145	6,779	366	224	7,076	6,654	422
British Columbia Railway Company	603	35	638	607	31	31	634	597	37
Columbia Power Corporation and Columbia Basin Power Company	113	54	167	181	(14)	79	192	205	(13)
Liquor Distribution Branch	2	—	2	2	—	11	13	2	11
	7,570	382	7,952	7,569	383	345	7,915	7,458	457
Warehouse borrowing program	1,312	1,401	2,713	2,170	543	(212)	1,100	600	500
Total self-supported debt	**8,882**	**1,783**	**10,665**	**9,739**	**926**	**133**	**9,015**	**8,058**	**957**
Forecast allowance	**—**	**—**	**—**	**—**	**—**	**—**	**—**	**500**	**(500)**
Total provincial debt	**33,879**	**3,439**	**37,318**	**36,580**	**738**	**2,506**	**36,385**	**36,778**	**(393)**

[1] Debt includes provincial government direct debt, fiscal agency loans, other debt that has been guaranteed by the provincial government, and certain other debt that is not provincially guaranteed.
[2] Gross new long-term borrowing plus net change in short-term debt outstanding, less sinking fund contributions, sinking fund earnings and net maturities of long-term debt (after deduction of sinking fund balances for maturing issues).
[3] Reflects nine-month allocation of the full-year budget as presented in the July 30 *Economic and Fiscal Update*, based on planned activities and seasonal patterns.
[4] A change in accounting policy has resulted in vehicle leases being recorded as capital costs rather than operating expenditures. Government operating debt has been restated to include vehicle lease obligations of $44 million in 2000/01.
[5] By March 31, 2002, Skeena Cellulose Inc. will have either been sold or declared bankrupt. In either case, debt of 552513 British Columbia Ltd. (Skeena Cellulose Inc.), will have been assumed by the provincial government ($261 million) and by the minority shareholder ($94 million).
[6] Includes the British Columbia Housing Management Commission and the Provincial Rental Housing Corporation.
[7] Includes student assistance loans.

TABLE 3.12
PROVINCIAL DEBT[1] OUTSTANDING
(Unaudited)

	Debt Outstanding March 31, 2001	Year-to-Date Actual to December 31, 2001				Revised Forecast to March 31, 2002			
			Debt Outstanding				Debt Outstanding		
		Net Change[2]	Actual	Budget[3]	Variance Above/ (Below) Budget	Full-year Net Change[2]	Revised Forecast	July 30 Update	Variance Above/ (Below) July 30 Update
	($ millions)	($ millions)				($ millions)			
Taxpayer-supported debt									
Provincial government operating[4]									
Government operating purposes	12,113	1,150	13,263	13,077	186	1,502	13,615	14,142	(527)
Skeena Cellulose debt assistance[5]	—	261	261	—	261	261	261	—	261
	12,113	1,411	13,524	13,077	447	1,763	13,876	14,142	(266)
Education facilities									
Schools	3,880	164	4,044	4,047	(3)	272	4,152	4,130	22
Post-secondary institutions	1,383	55	1,438	1,452	(14)	74	1,457	1,475	(18)
	5,263	219	5,482	5,499	(17)	346	5,609	5,605	4
Health facilities	1,780	103	1,883	1,934	(51)	170	1,950	2,021	(71)
Highways, ferries and public transit									
BC Transportation Financing Authority	2,197	132	2,329	2,435	(106)	323	2,520	2,559	(39)
British Columbia Ferry Corporation	21	(2)	19	48	(29)	13	34	58	(24)
British Columbia Transit	75	(2)	73	80	(7)	7	82	82	—
Public transit	948	(6)	942	942	—	(10)	938	941	(3)
SkyTrain extension	836	238	1,074	1,088	(14)	235	1,071	1,144	(73)
Rapid Transit Project 2000	114	(48)	66	68	(2)	(108)	6	—	6
	4,191	312	4,503	4,661	(158)	460	4,651	4,784	(133)
Other									
British Columbia Buildings Corporation	610	(59)	551	594	(43)	(13)	597	614	(17)
552513 British Columbia Ltd. (Skeena Cellulose Inc.)[5]	337	(337)	—	355	(355)	(337)	—	356	(356)
Social housing[6]	265	21	286	281	5	20	285	281	4
Homeowner Protection Office	71	33	104	79	25	41	112	82	30
Universities and colleges — fiscal agency loans	124	(9)	115	122	(7)	(9)	115	121	(6)
Other[7]	243	(38)	205	239	(34)	(68)	175	214	(39)
	1,650	(389)	1,261	1,670	(409)	(366)	1,284	1,668	(384)
Total taxpayer-supported debt	**24,997**	**1,656**	**26,653**	**26,841**	**(188)**	**2,373**	**27,370**	**28,220**	**(850)**
Self-supported debt									
Commercial Crown corporations and agencies									
British Columbia Hydro and Power Authority	6,852	293	7,145	6,779	366	224	7,076	6,654	422
British Columbia Railway Company	603	35	638	607	31	31	634	597	37
Columbia Power Corporation and Columbia Basin Power Company	113	54	167	181	(14)	79	192	205	(13)
Liquor Distribution Branch	2	—	2	2	—	11	13	2	11
	7,570	382	7,952	7,569	383	345	7,915	7,458	457
Warehouse borrowing program	1,312	1,401	2,713	2,170	543	(212)	1,100	600	500
Total self-supported debt	**8,882**	**1,783**	**10,665**	**9,739**	**926**	**133**	**9,015**	**8,058**	**957**
Forecast allowance	—	—	—	—	—	—	—	500	(500)
Total provincial debt	**33,879**	**3,439**	**37,318**	**36,580**	**738**	**2,506**	**36,385**	**36,778**	**(393)**

[1] Debt includes provincial government direct debt, fiscal agency loans, other debt that has been guaranteed by the provincial government, and certain other debt that is not provincially guaranteed.
[2] Gross new long-term borrowing plus net change in short-term debt outstanding, less sinking fund contributions, sinking fund earnings and net maturities of long-term debt (after deduction of sinking fund balances for maturing issues).
[3] Reflects nine-month allocation of the full-year budget as presented in the July 30 *Economic and Fiscal Update*, based on planned activities and seasonal patterns.
[4] A change in accounting policy has resulted in vehicle leases being recorded as capital costs rather than operating expenditures. Government operating debt has been restated to include vehicle lease obligations of $44 million in 2000/01.
[5] By March 31, 2002, Skeena Cellulose Inc. will have either been sold or declared bankrupt. In either case, debt of 552513 British Columbia Ltd. (Skeena Cellulose Inc.), will have been assumed by the provincial government ($261 million) and by the minority shareholder ($94 million).
[6] Includes the British Columbia Housing Management Commission and the Provincial Rental Housing Corporation.
[7] Includes student assistance loans.

TABLE 3.13
SUMMARY ACCOUNTS BALANCE SHEET
(Unaudited)

	March 31 2001[1]	Year-to-Date Dec. 31 2001	Year-to-Date Increase/ (Decrease)[2]	Revised Forecast March 31 2002	Revised Forecast Increase/ (Decrease)[2]
			($ millions)		
Assets					
Cash and temporary investments	554	1,149	595	588	34
Other working capital assets[3]	4,884	3,819	(1,065)	4,325	(559)
Capital assets and investments (net of amortization)					
— Net investment in self-supported Crown corporations	*3,001*	*2,839*	*(162)*	*2,521*	*(480)*
— Loans for purchases of assets recoverable from agencies[4]	*7,437*	*7,842*	*405*	*7,785*	*348*
— Prepaid capital advances	*6,905*	*6,996*	*91*	*7,106*	*201*
— Tangible capital assets	*11,119*	*11,241*	*122*	*11,296*	*177*
	28,462	28,918	456	28,708	246
Warehouse borrowing program assets	1,312	2,713	1,401	1,100	(212)
	35,212	**36,599**	**1,387**	**34,721**	**(491)**
Liabilities					
Current liabilities[5]	3,876	3,241	(635)	4,198	322
Unfunded pension liabilities	1,477	13	(1,464)	13	(1,464)
Debt					
— Taxpayer-supported debt	*24,997*	*26,653*	*1,656*	*27,370*	*2,373*
— Commercial Crown corporations and agencies	*7,570*	*7,952*	*382*	*7,915*	*345*
— Warehouse borrowing program	*1,312*	*2,713*	*1,401*	*1,100*	*(212)*
	33,879	*37,318*	*3,439*	*36,385*	*2,506*
Less: guarantees and non-guaranteed debt[6]	(597)	(470)	127	(488)	109
	33,282	36,848	3,566	35,897	2,615
	38,635	**40,102**	**1,467**	**40,108**	**1,473**
Net equity (deficiency)[7]	(3,423)	(3,503)	(80)	(5,387)	(1,964)
	35,212	**36,599**	**1,387**	**34,721**	**(491)**

[1] Restated to reflect a $90-million prior period adjustment to tangible capital assets for the capitalization of land improvements previously expensed, a $44-million adjustment to tangible capital assets for the capitalization of vehicle leases previously classified as operating, and a $39-million adjustment to equity to reflect a revision to 2000/01 revenue.
[2] Change from March 31, 2001.
[3] Accounts receivable, loans, inventories and other assets/investments.
[4] Includes loans to commercial Crown corporations for the purchase of capital assets.
[5] Accounts payable, accrued liabilities and deferred revenue.
[6] Third party guarantees, and provincial guarantees and non-guaranteed debt of commercial Crown corporations and agencies.
[7] Accumulated deficits of the government and Crown corporations and agencies plus accounting adjustments resulting from changes in accounting policy.

Changes in Summary Accounts Financial Position

	Year-to-Date December 31, 2001[1]		Revised Forecast to March 31, 2002[1]	
		($ millions)		
Summary accounts deficit (surplus) for the period		**80**		**1,964**
Increase (reduction) in cash and temporary investments		595		34
Changes in capital asset and investments:				
Increase (decrease) in assets related to taxpayer-supported capital investments	1,096		1,584	
Less: depreciation and other accounting changes	(883)	213	(1,206)	378
Increase (decrease) in investment in, and loans to, commercial Crown corporations for asset purchases	628		899	
Less: depreciation and other accounting changes	(223)	405	(551)	348
Increase (decrease) in unremitted earnings of commercial Crown corporations		(162)		(480)
Non-cash and other working capital changes:				
Reduction in unfunded pension liability	1,464		1,464	
Other working capital changes and adjustments	(557)	907	(990)	474
Net debt increase (decrease) for government and its Crown corporations and agencies		2,038		2,718
Increase (decrease) in warehouse borrowing program		1,401		(212)
Increase (decrease) in total provincial debt		**3,439**		**2,506**

[1] Change from March 31, 2001.

APPENDICES

A1 REVENUE MEASURES

Revenue Measures: Supplementary Information

INCOME TAX ACT

ALTERNATIVE MINIMUM TAX

Effective for the 2002 and subsequent taxation years, the rate at which BC alternative minimum tax (AMT) is charged and the rate at which it is credited is set at the ratio of the BC first tax bracket rate to the federal first tax bracket rate. As a result, the BC AMT rate for 2002 will be reduced to 37.8 per cent from 49.5 per cent. This is consistent with the recent reductions in BC and federal personal income tax rates.

BC AMT is added to regular BC income tax and is calculated as a percentage of the additional federal tax attributable to the federal AMT calculation. BC AMT for 2002 can be expressed as:

BC AMT = 37.8 per cent × (Federal AMT − Federal Tax)

AMT charged in one year is creditable against taxes payable in subsequent years. As a result of these changes, the BC AMT credit for 2002 will be 37.8 per cent of federal AMT credit claimed.

OVERSEAS EMPLOYMENT TAX CREDIT

Effective for the 2002 and subsequent taxation years, the rate used to calculate BC's Overseas Employment Tax Credit (OETC) is changed from 49.5 per cent to the ratio of BC tax to federal tax.

BC OETC for 2002 can be expressed as:

BC OETC = Federal OETC × (BC tax before OETC)/(Federal Tax before OETC)

DISABILITY-RELATED TAX CREDITS

Effective for the 2002 tax year, the province's disability-related credit amounts are increased. In addition, in future years the credit amounts will be indexed to provincial inflation.

The credits include:

- infirm dependant tax credit;
- in-home care of relative credit;
- credit for mental or physical impairment; and
- additional credit for mental or physical impairment for a child under 18.

The enhancements will provide additional assistance for families dealing with physical or mental impairment and are summarized in the following table:

TABLE A1.1
INCREASES TO DISABILITY-RELATED CREDITS

Credit	Old amount	New amount
Infirm dependant credit	$2,475	$3,574
In-home care of relative	$2,475	$3,574
Credit for mental or physical impairment	$4,453	$6,126
Credit for mental or physical impairment for child under 18	$3,051	$3,574

Note: The credit is equal to the credit amount multiplied by the lowest provincial tax rate of 6.05 per cent.

SALES TAX CREDIT

Effective for the 2002 tax year, the BC refundable sales tax credit is increased to $75 from $50 for each adult family member. As a result, eligible credit applicants will receive the increased amount when they file their tax returns for 2002 and subsequent years.

The increase in the sales tax credit will more than offset the increase sales tax paid by most of the 660,000 individuals and families who currently receive the credit. With the increase to the credit, single individuals with up to $18,750 in net income will receive at least some credit and families will receive some credit up to $25,500 in family net income.

BC FAMILY BONUS

In response to federal changes to the National Child Benefit supplement, effective July 2002, the basic BC Family Bonus is adjusted by reducing the province's contribution to the combined BC Family Bonus and National Child Benefit supplement. The policy for the next three years will be to allow annual increases in the combined benefit equal to one half the federal inflation adjustment. Thus, families will receive an increase in benefits each year.

SMALL BUSINESS THRESHOLD

Small business threshold raised to $300,000

The maximum amount of taxable income to which the small business corporate income tax rate may be applied, or the "business limit", is increased from $200,000 to $300,000 effective April 1, 2002. This change parallels similar increases in five other provinces.

Corporations will be required to pro-rate their business limits based on the number of days in the taxation year before and after April 1, 2002. When allocating the business limit among associated corporations, the provincial business limit will continue to be allocated in the same proportion as the federal business limit.

MEDICARE PROTECTION ACT

MEDICAL SERVICES PLAN PREMIUMS

MSP premiums increased to help fund health costs

Effective May 1, 2002, medical services plan premiums are increased by 50 per cent. The additional revenue will assist in funding compensation increases in the health sector. The premium assistance program is enhanced to ensure that people currently qualifying for premium assistance will be protected from the increase.

TABLE A1.2
MONTHLY MEDICAL SERVICES PLAN PREMIUM RATES

	Rate prior to May 2002	Rate effective May 2002
Single	$36	$54
Family of 2 persons	$64	$96
Family of 3 or more persons	$72	$108

Premium assistance is available to lower income individuals and families at five levels ranging from 100 per cent to 20 per cent of premiums otherwise payable.

Premium assistance enhanced

Premium assistance is enhanced by increasing the adjusted net family income thresholds by $4,000 each (see Table A1.3). The government will continue to review the combined impact of the premium increase, premium assistance enhancements and the 25 per cent personal income tax cut implemented in 2001.

TABLE A1.3
MEDICAL SERVICE PLAN PREMIUM ASSISTANCE CHANGES

Level of assistance	Per cent of premiums payable	Adjusted net family income range*	
		Before changes	After changes
1	0	$12,000 or less	$16,000 or less
2	20	$12,001 to $14,000	$16,001 to $18,000
3	40	$14,001 to $16,000	$18,001 to $20,000
4	60	$16,001 to $18,000	$20,001 to $22,000
5	80	$18,001 to $20,000	$22,001 to $24,000

* Adjusted net family income is used to determine the level of assistance and is defined as net income from an applicant's (and spouse's) income tax return, less $3,000 for each dependant (reduced by a portion of child care expenses claimed), $3,000 for each person in the family over age 65 and $3,000 for each person in the family who is disabled.

The following table shows the impact of these changes for a single person, a senior couple and a family of four at various income levels. For example, the adjusted net income of a senior couple with $30,000 annual income is $21,000. This couple will be eligible for the 60 per cent level of assistance and pay monthly premiums of $57.60 per month, or $691.20 annually.

TABLE A1.4
EXAMPLES OF MEDICAL SERVICE PLAN PREMIUM CHANGES
(For Premium and Premium Assistance Changes Effective in 2002)

Annual net family income	Annual premiums before changes	Annual premiums after changes	(Decrease) increase
Single			
$12,000 or less	$0.00	$0.00	$0.00
$12,001 to $14,000	$86.40	$0.00	($86.40)
$14,001 to $16,000	$172.80	$0.00	($172.80)
$16,001 to $18,000	$259.20	$129.60	($129.60)
$18,001 to $20,000	$345.60	$259.20	($86.40)
$20,001 to $22,000	$432.00	$388.80	($43.20)
$22,001 to $24,000	$432.00	$518.40	$86.40
Over $24,000	$432.00	$648.00	$216.00
Senior Couple			
$21,000 or less	$0.00	$0.00	$0.00
$21,001 to $23,000	$153.60	$0.00	($153.60)
$23,001 to $25,000	$307.20	$0.00	($307.20)
$25,001 to $27,000	$460.80	$230.40	($230.40)
$27,001 to $29,000	$614.40	$460.80	($153.60)
$29,001 to $31,000	$768.00	$691.20	($76.80)
$31,001 to $33,000	$768.00	$921.60	$153.60
Over $33,000	$768.00	$1,152.00	$384.00
Family of Four			
$21,000 or less	$0.00	$0.00	$0.00
$21,001 to $23,000	$172.80	$0.00	($172.80)
$23,001 to $25,000	$345.60	$0.00	($345.60)
$25,001 to $27,000	$518.40	$259.20	($259.20)
$27,001 to $29,000	$691.20	$518.40	($172.80)
$29,001 to $31,000	$864.00	$777.60	($86.40)
$31,001 to $33,000	$864.00	$1,036.80	$172.80
Over $33,000	$864.00	$1,296.00	$432.00

CORPORATION CAPITAL TAX ACT

INVESTMENT ALLOWANCE FOR BANKS AND TRUST COMPANIES

Investment allowance extended to banks and trust companies

To ensure that all financial institutions are treated consistently under the Act, an investment allowance is introduced for banks and trust companies, effective for taxation years starting on or after September 1, 2002. The investment allowance will be available to a bank or trust company that has shares in another financial institution with a permanent establishment in BC. The allowance, which is a deduction from total paid up capital, will be calculated as the proportion of the total paid up capital of the bank or trust company that the carrying value of the qualifying shares bear to the total assets of the bank or trust company. Previously, only credit unions were entitled to the investment allowance. The change will provide consistent treatment for all financial institutions operating in the province.

FORMULA FOR PAID UP CAPITAL OF AUTHORIZED FOREIGN BANKS

Foreign bank branch calculations adjusted

The formula for calculating the aggregate paid up capital of authorized foreign banks is adjusted, effective immediately, to ensure that the tax paid by branches of foreign banks is equivalent to the amount of tax that domestic banks of a similar size pay under the Act.

Specifically, the formula is adjusted to require that certain amounts that must be deducted from capital under the capital adequacy requirements of the Superintendent of Financial Institutions be added back for purposes of calculating tax under the Act. The formula is also adjusted to allow for a deduction of subordinated debt, which is not included in the tax base for domestic banks.

STREAMLINE LEGISLATION

Legislation streamlined

Since the Act will no longer apply to general corporations for taxation years starting after August 31, 2002, the legislation will be streamlined by removing all references and calculations for general corporations, effective September 1, 2002. Special calculations for partnership interests will be eliminated. Previous requirements to add together all associated corporations for purposes of various calculations under the Act will be limited to associated corporations that are financial institutions.

PETROLEUM AND NATURAL GAS ACT

NEW ROYALTY FORMULA FOR COALBED METHANE

New royalty scheme to encourage development of coalbed methane

A new royalty formula, recognizing the unique features of coalbed methane production, is implemented effective March 1, 2002. Specifically, the natural gas royalty formula is amended with respect to coalbed methane to:

- allow water handling costs to be included in the producer's cost of service allowance;
- allow costs in excess of royalties to be banked and deducted in subsequent years;
- provide for a royalty credit of $50,000 for each new well drilled before February 29, 2004; and
- reduce the threshold for the low volume well adjustment factor to 17,000 m^3 per day.

Similar changes will apply to the freehold production tax, applicable to freehold interests in coalbed methane. The freehold production tax credit for wells drilled before February 29, 2004 will be $30,000 to reflect the fact that the freehold production tax is roughly 60 per cent of the royalty applicable to Crown lands.

BASE 9 LAND SALES

To encourage interest in land acquisition for natural gas production, the opportunity for acquiring land to which the preferential Base 9 royalty structure for nonconservation gas applies will be extended for two more years until December 31, 2003. The extension will be retroactive to January 1, 2002 so that land acquired in January will also qualify for the Base 9 royalty structure.

SOCIAL SERVICE TAX ACT

PROVINCIAL SALES TAX RATE

To assist in funding compensation increases in high-demand occupations in the health sector, the general provincial sales tax rate is increased from 7 per cent to 7.5 per cent effective February 20, 2002. The 10 per cent tax rate on beverage alcohol and the 8 per cent, 9 per cent and 10 per cent vehicle surtax rates are unchanged. The annual multijurisdictional tax rates on eligible multijurisdictional vehicles will be adjusted effective October 1, 2002 to reflect the increase in the general rate.

The 7.5 per cent tax rate applies to all purchases made after February 19, 2002. For purchases that are billed at regular intervals, such as telephone, cablevision and hydro, the 7.5 per cent rate applies to the first billing period that begins after February 19, 2002.

A tax refund is provided for the difference between the tax payable at 7 per cent and the tax paid at 7.5 per cent where:

- tangible personal property (TPP) is purchased after February 19, 2002;
- the TPP is incorporated into real property under a fixed-price or lump-sum real property contract entered into before February 20, 2002; and
- the contract precludes the recovery of the additional tax paid.

The 7.5 per cent rate applies to the first payment for a lease period that begins after February 19, 2002 and to each subsequent lease payment.

ITEMS PURCHASED OR LEASED BY *BONA FIDE* FARMERS

Exemption for bona fide farmers expanded

Effective February 20, 2002, the following changes are made to the list of items that can be purchased or leased exempt from provincial sales tax by *bona fide* farmers for farm purposes:

- The following items are added to the list;
  — hay tarps; and
  — scales designed to weigh livestock.
- The quantity of greenhouse glass that must be purchased to qualify for exemption is decreased to 500 square metres from 5,000 square metres.

- The exemption for feeding and watering systems is expanded to include hardware and software that is integrated into the systems. Stand-alone computers and related software that may be used to control the system, but which are separate from the feeding or watering system, continue to be taxable.

PARTS FOR EXEMPT MACHINERY OR EQUIPMENT

Exemption for parts for machinery and equipment expanded

Effective February 20, 2002, the exemption for parts to repair or recondition exempt machinery or equipment is expanded to include all parts when purchased for use on eligible machinery and equipment. Previously, the exemption only applied to parts "designed for" the repair and reconditioning of exempt machinery or equipment.

The change will simplify administration and compliance and improve the fairness of the machinery and equipment exemption.

PURCHASES FOR SCHOOLS MADE WITH PARENT ADVISORY COUNCIL (PAC) RAISED FUNDS

Tax relief introduced for PACs

To meet a *New Era* commitment, a refund of provincial sales tax is available for goods purchased after June 30, 2002, with funds raised by public school PACs. To qualify, the goods must be given to a school for use by the school and its students.

PACs may claim one refund per school year for the tax paid on eligible purchases. School boards may claim up to two refunds per school year for purchases made with PAC-raised funds. Refunds may be claimed only for the tax paid on that portion of the purchase price paid with PAC-raised funds.

CHEMICALS USED BY PULP MANUFACTURERS TO MAKE AMMONIUM BISULFITE

Exemption introduced for chemicals used to make ammonium bisulfite

Purchases of chemicals used to produce ammonium bisulfite are exempt from tax when the ammonium bisulfite qualifies as a catalyst or direct agent and is used in a pulp manufacturing process. The exemption is retroactive to March 31, 1998.

This exemption parallels an existing exemption for chemicals used to make chlorine dioxide and sodium hydrosulfide in a pulp manufacturing process which was introduced on March 31, 1998. The new exemption provides tax parity for different pulp production processes.

BOATS AND TRAVEL TRAILERS BROUGHT INTO BC BY NON-RESIDENT INDIVIDUALS

In the July 30 Update, the government promised to consult with business and other stakeholders about the application of provincial sales tax to boats and

travel trailers owned by non-residents. As a result of these consultations, effective February 20, 2002 boats and travel trailers brought into BC by non-resident individuals for a non-commercial purpose are exempt from provincial sales tax.

Amendments are also made to clarify and relax the circumstances under which non-residents are required to pay tax on other taxable goods brought into the province for non-commercial long-term use. Currently, non-residents are required to pay tax on such goods if they own real property in BC or have some other form of real property interest with a term of at least 12 months. The goods become taxable after they are used primarily in the province for 12 months following their date of entry.

Effective February 20, 2002, the timing requirement for leaseholds is relaxed. Only non-residents who lease real property under a lease with a term of at least five years including all options to extend or renew are required to pay tax. Non-residents continue to pay the tax on taxable goods purchased in BC, including the tax on parts and labour to repair exempt boats and travel trailers, unless the goods are delivered outside of the province by the vendor.

MULTIJURISDICTIONAL VEHICLE (MJV)

The *Social Service Tax Act* is amended retroactive to January 1, 1996 to allow pick-up trucks and service vehicles used interjurisdictionally and registered under the International Registration Plan (IRP) and other pro-rate registration and licensing plans to be eligible for the MJV tax.

IRP allows commercial vehicles that travel in more than one jurisdiction to register in their home jurisdiction and to pay pro-rated licensing fees to the other jurisdictions based on the extent to which they operate in those other jurisdictions. The MJV tax is an annual tax-in-lieu of the provincial sales tax that is pro-rated to reflect the extent to which a multijurisdictional vehicle operates in BC. The amendment harmonizes the application of the MJV tax with ICBC licensing policies for pro-rate vehicles.

TAX ON ROYALTY PAYMENTS AND LICENCE FEES

The *Social Service Tax Act* is amended retroactive to March 31, 1998 to correct a legislative error made at that time. In some cases, goods are purchased for a price plus royalty payments or licence fees that continue to be paid after the date of purchase. The 1998 amendment clarified the long-standing administrative practice that those royalty payments and licence fees are part of the purchase price and subject to tax. The 1998 amendment was also intended to ensure that those payments were taxable even if the item was originally purchased prior to the six year audit limitation period under the Act, but did not do so. The Act is amended to correct this error.

TOBACCO TAX ACT

TOBACCO TAX RATE

Effective February 20, 2002, the tax rate on cigarettes is increased to $30 from $22 per carton of 200 cigarettes, and the tax rate on fine-cut tobacco to 15 cents per gram from 11 cents per gram. The additional revenue will contribute to funding compensation increases for high-demand occupations in the health sector.

(See Consumer Taxation website at: www.gov.bc.ca/ctb for more details on consumption tax changes.)

HOSPITAL DISTRICT ACT AND *ASSESSMENT AUTHORITY ACT*

TAXPAYER EXEMPTIONS

The *Hospital District Act* and the *Assessment Authority Act* are amended to ensure that property tax exemptions are consistent among all taxing authorities which use the hospital roll. Hospital districts and the BC Assessment Authority levy a property tax on the basis of the hospital roll. The amendments will ensure that exemptions for taxpayers under both acts are consistent with each other and with current administrative practice. Changes are retroactive to December 31, 2001, so that they apply for the 2002 taxation year.

SCHOOL ACT

SCHOOL TAX RATES

In general, a separate *residential* tax rate is set for each school district. For the 2002 calendar year, average residential school taxes before application of the home owner grant will be increased by 2 per cent. The increase on a medium-valued home will be less than $20 annually. Residential school property tax rates will reflect changes in average assessed values in accordance with the residential school tax formula, which has been used since 1991.

Residential tax rates will be set in April when authenticated assessment roll data are available to calculate the rates according to the provincial residential school tax rate formula.

Even though the average residential tax is increased, the change in individual tax bills will vary. Some homeowners will experience an increase in their school taxes, while others will have reductions. The variation in individual tax bills will occur because changes in the assessed value of any individual property are likely to differ from changes in average provincial and school district assessed values.

For each of the eight *non-residential* property classes, a single, province-wide rate is set. Non-residential school tax rates will remain unchanged from 2001 levels.

ALLOW MORE THAN ONE SCHOOL TAX RATE PER SCHOOL DISTRICT

Effective January 1, 2002, authority is provided for the province to set more than one provincial school tax rate within a school district. In general, the residential school tax rate formula, in effect since 1991, has successfully balanced the residential school tax burden among various school districts. School districts with higher average values pay tax at lower tax rates which partially offset the effect of the higher values.

The amendment will allow the province to deal with situations where there is considerable variation in values among municipalities within a single school district. This can occur when one community has properties with unique attributes that the market considers significantly more desirable than properties elsewhere in the same school district. Under the residential school tax rate formula, the higher valued municipalities within the school district attract more of the school district's tax burden. While there will always be variations about the averages, the amendment will enable the province to address situations where the variation becomes excessive by creating a second tax rate for part of the school district.

These cases will be defined as situations where a municipality meets two tests:

- Average values in the municipality, as measured by the average value in the single family residential subclass, must be at least twice as high as the average for the rest of the school district; and
- The tax saving from moving from a school district rate to a hypothetical rate for the municipality as its own school district must be greater than 20 per cent of the hypothetical stand-alone rate.

In 2002, the only municipality that passes both tests is Tofino.

TAXATION (RURAL AREA) ACT

RURAL AREA TAX RATES

For the 2002 calendar year, average *residential* provincial rural area taxes will be increased by 2 per cent. Since average rural residential values were essentially unchanged for 2002, the provincial rural residential tax rate will increase from $1.02 per thousand to $1.04 per thousand.

Non-residential rural area tax rates remain unchanged.

HOME OWNER GRANT ACT

DISABILITY PORTION OF THE HOME OWNER GRANT

The Home Owner Grant program is administered by municipal collectors in incorporated areas and by the provincial Surveyor of Taxes in rural areas of the province, and is applied as a reduction of provincial school property taxes.

The additional grant for persons with disabilities, introduced in 1981, provides an additional $275 annually to home owners with a permanent disability or who are living with a person with a permanent disability. The intent of the additional grant is to provide financial relief to persons who, due to a loss of mobility, are required to make costly modifications to their home or to pay for physical assistance to allow them to live independently.

In 1997, changes were made to improve the consistency of administration of the grant. The Certificate of Persons with Disabilities and Property Owner (Form B) in the *Home Owner Grant Act* regulations was amended to ask a physician to provide more information on the nature of the disability. Applicants were also asked to complete a supplementary form to verify, among other things, that costs were incurred for physical assistance or structural modifications in the home.

Legislative amendments will confirm the use of the supplementary form for the years 1997-2001 inclusive. The amendments also confirm the requirement that applicants have incurred substantial costs for physical assistance or structural modifications in the home.

The program will continue on this basis in 2002 while the government reviews options to provide these benefits more effectively in the future.

In addition, effective for 2002, regulatory changes are introduced to eliminate the supplementary form and replace it and the old Form B with a new simplified form. Under the new regulation, the home owner, rather than a physician, will verify that costs are incurred for physical assistance or structural modifications to the home.

The amendments will ensure that home owners who qualified for the grant in 2001 will continue to qualify for the grant in 2002.

Additional Revenue for Greater Vancouver Transportation Authority *(TransLink)*

MOTOR FUEL TAX ACT

TRANSLINK GASOLINE AND DIESEL TAX RATES

TransLink fuel taxes increased by 2 cents per litre

As part of an overall agreement with *TransLink*, effective April 1, 2002 the tax rates on clear gasoline and diesel fuel purchased in the Greater Vancouver transportation service region are increased by 2 cents per litre. The tax is collected on behalf of *TransLink* by the provincial government.

The 2 cents per litre increase will help *TransLink* meet the growing cost of development and maintenance of roads and bridges, as well as the expansion and operation of the public transit system in the Greater Vancouver transportation service region. There is no change to provincial revenues as a result of the additional tax.

SOCIAL SERVICE TAX ACT

TRANSLINK PARKING TAX RATE

As required by agreement between the province and *TransLink*, effective June 1, 2002, the *Social Service Tax Act* is amended to allow *TransLink* to raise the tax rate on parking up to 21 per cent. *TransLink* currently levies a tax of 7 per cent on parking.

The tax does not apply to parking sold or leased to residents of residential dwelling units or to street-metered parking.

A2 TAX EXPENDITURES 2001/02

Introduction

A tax expenditure is the reduction in revenues from delivering government programs or benefits through the tax system rather than through voted budget appropriations. Tax expenditures are usually made by offering special tax rates, exemptions, or tax credits. Governments introduce tax expenditures primarily to achieve social policy objectives such as transfers to lower income families or to promote economic development and job creation.

Reporting tax expenditures improves government accountability by providing a more complete picture of government activities. The tax expenditure report outlines major tax expenditures for the 2001/02 tax year. It does not include tax expenditures introduced or expanded in *Budget 2002*. These are described in the Revenue Measures section.

The Role of Tax Expenditure Programs

Using the tax system to deliver programs can reduce administration costs and reduce compliance costs for recipients. In certain situations, the tax system allows intended beneficiaries to be readily identified from information that is already collected. In these cases setting up a separate expenditure program would result in costly overlap and duplication of effort. An example is the provincial sales tax credit, which is delivered through the income tax system. If this were a direct provincial expenditure program, a provincial agency or office would have to be established to duplicate much of the work already done by the Canada Customs and Revenue Agency. In addition, it would require individuals to undertake a separate, time-consuming application process in order to qualify for the benefit.

There are, however, several potential drawbacks to tax expenditure programs. First, their overall cost often receives less public scrutiny than is the case for spending programs because annual budget approvals are not typically required. Second, tax expenditure programs may confer the greatest benefits to those who pay the most taxes, which means that the major beneficiaries are often high income earners. Sales tax exemptions, for example, often provide a greater absolute benefit to those with higher incomes because they have more to spend on consumer products. Finally, costs are often more difficult to control under a tax expenditure program because the benefits tend to be more open ended and enforcement is often more difficult than for spending programs.

Tax Expenditure Reporting

Not all tax reductions, credits and exemptions are classed as tax expenditures. Three criteria were used to choose those features of the tax system that should be reported as tax expenditures.

First, the emphasis is on tax reductions, exemptions and refunds that are close equivalents to spending programs. By implication, the list does not include tax

measures designed to meet broad tax policy objectives such as improving fairness in the tax system, or measures designed to simplify the administration of the tax. The list also does not include items that are generally excluded from a particular tax base. For example, most services are excluded from provincial sales taxes, which are primarily designed to apply to purchases of goods.

Second, revenues raised under provincial government authority that are turned over to agencies outside of government are not reported as tax expenditures in this report. This includes, for example, the hotel room tax revenues transferred to Tourism BC.

Third, smaller items of less than $2 million are not included. Where practical, smaller items have been presented together as an aggregate figure.

British Columbia Tax Expenditure Programs

The following tables report 2001/02 tax expenditure estimates.
For presentation purposes, British Columbia tax expenditures have been broken into three broad categories.

- *Social and Income Transfer Programs (Table A2.1):* These include tax expenditures that are offered as part of government's mix of health, education, housing, income transfer and family related programs. Examples include the BC Family Bonus, the home owner grant, the sales tax exemption for children's clothing and the income tax credit for medical expenses.
- *Economic Development and Business Assistance Programs (Table A2.2):* This category includes tax preferences for small businesses and measures to encourage new investments.
- *Environmental Protection Programs (Table A2.3):* There are relatively few tax expenditures in this category because environmental protection is now generally based on the principle of "polluter pay", such as the tire tax or motor fuel tax. However, environmental tax expenditures include, for example, a sales tax exemption for bicycles and a fuel tax exemption for certain alternative fuels.

Each category has its own table of tax expenditure estimates. Where applicable, the list of tax expenditures delivered through the income tax system has been separated into two sub-categories.

- *Provincial Measures:* This includes all major tax expenditures that are under provincial policy control.
- *Federal Measures:* British Columbia shares the cost of some federal income tax expenditure programs because, under the tax collection agreement between British Columbia and the federal government, the province has agreed to maintain a consistent income tax base with the federal government in the interest of reducing administrative and compliance costs.

The cost of individual tax expenditures cannot be added together to reach a total tax expenditure figure for two reasons:

- in some cases the programs interact with one another so that eliminating one program could increase or decrease the cost of another; and
- eliminating certain tax expenditure programs could change the choices taxpayers make, which in turn would affect the cost estimates.

The estimates for each tax expenditure are based on a static analysis of the costs and do not take into account any behavioural changes which may occur if the measure were eliminated.

TABLE A2.1 — SOCIAL AND INCOME TRANSFER PROGRAMS TAX EXPENDITURE	2001/02 Estimated Cost
PROVINCIAL SALES TAX	($ millions)
Exemptions for the following items:	
• Food (basic groceries, snack foods, candies, soft drinks and restaurant meals)[1]	700
• Residential fuels (electricity, natural gas, fuel oil, etc.)	140
• Prescription and non-prescription drugs, vitamins and certain other health care products and appliances	75
• Children's clothing and footwear	22
• Clothing patterns, fabrics and notions	6
• Specified school supplies	43
• Books, magazines and newspapers	54
• Basic telephone and cable service	54
• "1-800" and equivalent telephone services	8
• Exempt safety equipment	9
• Labour to repair major household appliances, clothing and footwear	6
• Miscellaneous consumer exemptions (e.g., used clothing under $100)	3
• Livestock for human consumption and feed, seed and fertilizer	36
PERSONAL INCOME TAX	
Provincial Measures	
BC Family Bonus[2]	71
Sales tax credit	42
Political contributions tax credit	3
Provincial Non-Refundable Credits:[3]	
• Charitable donations tax credit	108
• Tax credits for tuition and education	43
• Tax credits for disabilities and medical expenses	43
• Pension income tax credit	22
• Credit for persons older than 65 years	70
• Married and equivalent-to-married credits	87
• Tax credit for Canada Pension Plan contributions	104
• Tax credit for Employment Insurance premiums paid	57
Federal Measures[4]	
Deduction and inclusion of alimony and child support payments	13
Child care expense deduction	22
Exemption from capital gains up to $500,000 for small businesses and family farms	22
Deduction for residents of northern and isolated areas	6
Non-taxation of employer-paid insurance premiums for group private health and welfare plans	85

TABLE A2.1 — SOCIAL AND INCOME TRANSFER PROGRAMS TAX EXPENDITURE — *Continued*		**2001/02 Estimated Cost**
		($ millions)
Registered Retirement Savings Plans:[5]		
exemption for — contributions	403	
— investment earnings	258	
taxation of — withdrawals	(220)	
Total		441
Registered Pension Plans:[5]		
exemption for — contributions	251	
— investment earnings	586	
taxation of — withdrawals	(421)	
Total		416
CORPORATION INCOME TAX[6]		
Charitable donations deduction		11
SCHOOL AND RURAL AREA PROPERTY TAXATION[7]		
Home owner grant		502
Exemption for places of worship		9
PROPERTY TRANSFER TAX		
Exemption for first-time home buyers		35
Exemptions for the following items:		
• Property transfers between related individuals		23
• Property transfers to municipalities, regional districts, hospital districts, library boards, school boards, water districts and educational institutions		2
• Property transfers to charities registered under the *Income Tax Act* (Canada)		3

[1] The cost of exempting food is based on recent data and is lower than the 2000/01 value. The previous value was extrapolated from the 1996 estimate using population growth rates and inflation.

[2] The $71 million represents the tax expenditure portion of the program's cost. The tax-expenditure portion represents family bonus payments that effectively reduce the recipient's personal income tax. The remaining cost of the program, including recoveries and administration costs, of $105 million for 2001/02, is presented in the BC Benefits Vote because it represents payments to families which exceed their provincial income tax liabilities. In 2001/02, the total program cost was $176 million.

[3] Provincial non-refundable credits are generally based on estimates of credit claims by BC residents.

[4] The estimates show provincial revenue losses only. They are based on estimates of projected federal losses contained in *Government of Canada: Tax Expenditures, 2001*. British Columbia personal income tax expenditures for the federal measures are based on the amounts claimed by British Columbia residents for the measure and the relevant provincial tax rates for the period.

[5] Registered retirement savings plans and registered pension plans are treated in the same way as in the federal tax expenditure report. The tax expenditure associated with these schemes is presented as the amount of tax that would otherwise be paid in the year of deferral, were the deferral not available. However, this type of estimate overstates the true costs of these preferences because taxes are eventually paid, including tax on investment earnings. An estimate that does not overstate these costs would, however, be difficult to develop and would require some largely speculative assumptions.

[6] The deduction offered for corporate charitable donations is a federal measure, but the estimate shows only the provincial revenue loss. This is calculated from the federal revenue loss by applying British Columbia's share of corporate taxable income and the relevant tax rates to the federal estimate.

[7] The property tax estimates are for the 2001 calendar year, and include only school and rural area property taxes levied by the province. Home Owner Grant cost is also shown for the 2001 calendar year.

TABLE A2.2 — ECONOMIC DEVELOPMENT AND BUSINESS ASSISTANCE PROGRAMS TAX EXPENDITURE	2001/02 Estimated Cost
FUEL TAX	($ millions)
Tax exemption for international flights carrying cargo	2
Tax exemption for family farm trucks (on road)	2
Tax reduction for compressor fuel used to transmit natural gas from wellhead to processing plant	9
PERSONAL INCOME TAX	
Venture capital tax credit	9
Employee venture capital tax credit	11
CORPORATION INCOME TAX	
Provincial Measures	
Film and video tax credit	20
Production services tax credit	30
International financial business tax refund[1]	7
Two-year corporate income tax holiday for small business	3
Scientific Research and Experimental Development Tax Credit	45
Mining Exploration Tax Credit	3
Manufacturing and Processing Investment Tax Credit	7
CORPORATION CAPITAL TAX	
Two-year tax holiday for eligible British Columbia investment[2]	24
SCHOOL AND RURAL AREA PROPERTY TAXATION[3]	
Assessment exemption of $10,000 for industrial and business properties	8
Overnight tourist accommodation assessment relief	3
Exemption for property used for pollution abatement[4]	7
OTHER TAXES	
Oil and gas royalty holiday	2

[1] Includes employee income tax refunds.
[2] The tax holiday was extended from two to four years for qualifying expenditures made after March 31, 1999.
[3] Estimates are for the 2001 calendar year and include only school and rural area property taxes levied by the province.
[4] The property tax exemption for most land and improvements used in pollution abatement equipment was removed for 1997, but existing properties which were exempt in 1996 remain exempt under grandparenting provisions.

TABLE A2.3 — ENVIRONMENTAL PROTECTION PROGRAMS TAX EXPENDITURE	2001/02 Estimated Cost
PROVINCIAL SALES TAX	($ millions)
Exemptions for the following items:	
• Bicycles	5
• Specified energy conservation equipment	11
FUEL TAX	
Tax exemption for alternative fuels	15

TABLE A3
INTERPROVINCIAL COMPARISONS OF TAX RATES — 2002
(Rates known as of February 12, 2002)[1]

Tax	British Columbia[2]	Alberta	Saskatchewan	Manitoba	Ontario	Quebec	New Brunswick	Nova Scotia	Prince Edward Island	Newfoundland
Corporate income tax (per cent of taxable income)[3]										
General rate	13.5	13.5	17	16.5	12.5	9.04/16.25	16	16	16	14
Manufacturing rate	13.5	13.5	10	16.5	11	9.04	16	16	7.5	5
Small business rate	4.5	5	6	5	6	9.04	4	5	7.5	5
Small business threshold ($000s)	200	300	300	300	280	n/a	300	200	200	200
Corporation capital tax[4]										
Non-financial	.15	*Nil*	.6	.3/.5	.3	.64	.3	.25/.5	*Nil*	*Nil*
Financial	1.0/3.0	*Nil*	0.7/3.25	3.0	.6/.72/.9	1.28	3.0	3.0	3.0	4.0
Health care premiums[5]										
Individual/family	54/108	34/68	*Nil*	*Nil*	*Nil*	*Nil*	*Nil*	*Nil*	*Nil*	*Nil*
Payroll tax[6] (per cent)	*Nil*	*Nil*	*Nil*	2.15	1.95	4.26	*Nil*	*Nil*	*Nil*	2.0
Insurance premium tax (per cent)[7]	2-4	2-3	3-4	2-3	2-3.5	2-3	2-3	3-4	3.5	4
Fuel tax (cents per litre)										
Gasoline[8]	11.0	9.0	15.0	11.5	14.7	19.2	10.7	13.5	13.0	16.5
Diesel	11.5	9.0	15.0	10.9	14.3	20.2	13.7	15.4	13.5	16.5
Sales tax (per cent)										
General rate	7.5	*Nil*	6	7	8	7.5	8	8	10	8
Liquor	10	*Nil*	7	7	12	7.5	8	8	37.5	8
Meals	*Nil*	*Nil*	*Nil*	7	8	7.5	8	8	10	8
Accommodation	8	5	6	7	5	7.5	8	8	10	8
Tobacco tax (dollars per carton of 200 cigarettes)[9]	30.00	14.00	19.70	22.35	11.55	13.10	17.65	19.40	17.90	25.96

[1] Rates are those known as of February 12, 2002 and that are in effect for 2002.
[2] British Columbia tax rates are those announced in the February 19, 2002 Budget.
[3] British Columbia's small business threshold will be increased to $300,000 on April 1, 2002. Alberta has announced that its general and manufacturing rates will fall to 11.5 per cent, the small business rate will be reduced to 4 per cent and the small business threshold will increase to $400,000 on April 1, 2002. Alberta, Manitoba, Ontario and New Brunswick plan further reductions in their corporate income tax rates or increases in their small business thresholds in future years. Quebec's rate on investment income is 16.25 per cent. Other Quebec rates include a "youth fund" tax of 1.6 per cent.
[4] The British Columbia non-financial rate applies to corporations with paid-up capital in excess of $5 million. The tax on non-financial corporations will be eliminated effective September 1, 2002; the tax will be pro-rated for fiscal years straddling this date. Ontario's exemption of $2 million was replaced by a deduction of $5 million for all corporations effective January 1, 2002; Manitoba has a $5 million exemption level and the higher rate applies to corporations with taxable capital in excess of $10 million; Saskatchewan has a $10 million deduction. Large Saskatchewan resource corporations are assessed a surcharge on the value of Saskatchewan resource sales. Ontario and Quebec have an additional surcharge or compensation tax on financial institutions. Quebec has announced that its capital taxes will be reduced by approximately 50 per cent by 2007.
[5] British Columbia has a two person rate of $96. British Columbia and Alberta offer premium assistance in the form of lower rates or an exemption from premiums for lower income individuals and families.
[6] Provinces with payroll taxes provide payroll tax relief for small businesses.
[7] The lower rate applies to premiums for life, sickness and accident insurance; the higher rate applies to premiums for property insurance including automobile insurance. In Ontario, Quebec and Newfoundland specific sales taxes also apply to insurance premiums, except those related to individual life and health.
[8] Tax rate is for regular fuel used on highways. The British Columbia rate includes 3.25 cents per litre dedicated to the BC Transportation Financing Authority and 1.25 cents dedicated to the BC Ferry Corporation. The rates do not include regional taxes. The Quebec rate includes estimated sales tax.
[9] Includes estimated provincial sales tax where applicable.

TABLE A4
COMPARISON OF PROVINCIAL AND FEDERAL TAXES BY PROVINCE — 2002

Tax	British Columbia	Alberta	Saskat-chewan	Manitoba	Ontario	Quebec	New Brunswick	Nova Scotia	Prince Edward Island	New-foundland
	($)									
Two Income Family of Four — $90,000										
1. Provincial Income Tax	4,361	5,116	6,965	7,412	4,372	8,597	7,061	7,420	7,031	7,987
Net Child Benefits	0	0	0	—	0	0	0	0	—	0
2. Property Tax — Gross	2,743	2,740	3,924	4,946	3,788	3,554	2,514	3,247	2,639	1,800
— Net	2,273	2,740	3,924	4,621	3,788	3,554	2,514	3,247	2,639	1,800
3. Sales Tax	1,110	7	910	1,185	1,567	1,859	1,718	1,704	1,805	1,680
4. Fuel Tax	165	135	225	173	221	288	161	203	195	248
5. Provincial Direct Taxes	7,909	7,998	12,024	13,391	9,948	14,298	11,454	12,574	11,670	11,715
6. Health Care Premiums/Payroll Tax	1,296	816	—	1,935	1,755	3,834	—	—	—	1,800
7. Total Provincial Tax	9,205	8,814	12,024	15,326	11,703	18,132	11,454	12,574	11,670	13,515
8. Federal Income Tax	11,184	11,184	11,184	11,184	11,184	11,184	11,184	11,184	11,184	11,184
9. Net Federal GST	1,597	1,657	1,560	1,525	1,627	1,556	1,504	1,491	1,616	1,470
10. Total Tax	21,986	21,655	24,768	28,035	24,514	30,872	24,142	25,249	24,470	26,169
Two Income Family of Four — $60,000										
1. Provincial Income Tax	2,340	2,548	3,751	3,780	2,374	3,549	3,829	4,051	3,896	4,344
Net Child Benefits	0	106	0	—	0	0	0	0	—	0
2. Property Tax — Gross	2,268	1,974	2,747	3,557	2,721	2,883	1,641	1,903	1,300	1,728
— Net	1,798	1,974	2,747	3,232	2,721	2,883	1,641	1,903	1,300	1,728
3. Sales Tax	861	5	725	954	1,226	1,551	1,369	1,359	1,434	1,347
4. Fuel Tax	165	135	225	173	221	288	161	203	195	248
5. Provincial Direct Taxes	5,164	4,768	7,448	8,139	6,542	8,271	7,000	7,516	6,825	7,667
6. Health Care Premiums/Payroll Tax	1,296	816	—	1,290	1,170	2,556	—	—	—	1,200
7. Total Provincial Tax	6,460	5,584	7,448	9,429	7,712	10,827	7,000	7,516	6,825	8,867
8. Federal Income Tax	6,203	6,203	6,203	6,203	6,203	6,203	6,203	6,203	6,203	6,203
9. Net Federal GST	1,238	1,353	1,243	1,227	1,273	1,298	1,198	1,189	1,284	1,178
10. Total Tax	13,901	13,140	14,894	16,859	15,188	18,328	14,401	14,908	14,312	16,248
Two Income Family of Four — $30,000										
1. Provincial Income Tax	658	54	812	380	473	(246)	1,157	1,014	1,013	1,311
Net Child Benefits	(354)	(736)	0	—	(383)	(160)	(52)	0	—	0
2. Property Tax — Gross	2,268	1,974	2,747	3,557	2,721	2,883	1,641	1,903	1,300	1,728
— Net	1,798	1,974	2,747	3,232	2,721	2,883	1,641	1,903	1,300	1,728
3. Sales Tax	608	4	516	690	861	1,153	961	965	1,013	952
4. Fuel Tax	110	90	150	115	147	192	107	135	130	165
5. Provincial Direct Taxes	2,820	1,386	4,225	4,417	3,819	3,822	3,814	4,017	3,456	4,156
6. Health Care Premiums/Payroll Tax	518	816		645	585	1,278	—	—	—	600
7. Total Provincial Tax	3,338	2,202	4,225	5,062	4,404	5,100	3,814	4,017	3,456	4,756
8. Federal Income Tax	1,912	1,912	1,912	1,912	1,912	1,912	1,912	1,912	1,912	1,912
9. Net Federal GST	393	560	402	406	412	483	359	362	425	351
10. Total Tax	5,643	4,674	6,539	7,380	6,728	7,495	6,085	6,291	5,793	7,019
Unattached Individual — $25,000										
1. Provincial Income Tax	842	875	1,585	1,200	871	1,243	1,399	1,452	1,438	1,552
2. Property Tax	—	—	—	—	—	—	—	—	—	—
3. Sales Tax	427	3	364	507	626	772	687	685	808	679
4. Fuel Tax	110	90	150	115	147	192	107	135	130	165
5. Provincial Direct Taxes	1,379	968	2,099	1,822	1,644	2,207	2,193	2,272	2,376	2,396
6. Health Care Premiums/Payroll Tax	518	408	—	538	488	1,065	—	—	—	500
7. Total Provincial Tax	1,897	1,376	2,099	2,360	2,132	3,272	2,193	2,272	2,376	2,896
8. Federal Income Tax	2,313	2,313	2,313	2,313	2,313	2,313	2,313	2,313	2,313	2,313
9. Net Federal GST	312	343	309	314	325	345	293	291	336	287
10. Total Tax	4,522	4,032	4,721	4,987	4,770	5,930	4,799	4,876	5,025	5,496

TABLE A4 — *(Continued)*
COMPARISON OF PROVINCIAL AND FEDERAL TAXES BY PROVINCE — 2002

Tax	British Columbia	Alberta	Saskat-chewan	Manitoba	Ontario	Quebec	New Brunswick	Nova Scotia	Prince Edward Island	New-foundland
	($)									
Unattached Individual — $80,000										
1. Provincial Income Tax	5,468	5,783	8,289	8,991	5,914	11,214	8,486	8,781	8,631	9,695
2. Property Tax — Gross	1,972	1,848	3,042	3,255	2,536	3,213	2,072	2,475	1,300	1,300
— Net	1,502	1,848	3,042	2,930	2,536	3,213	2,072	2,475	1,300	1,300
3. Sales Tax	1,120	9	906	1,209	1,592	1,722	1,686	1,671	1,980	1,625
4. Fuel Tax	165	135	225	173	221	288	161	203	195	248
5. Provincial Direct Taxes	8,255	7,775	12,462	13,303	10,263	16,437	12,405	13,130	12,106	12,868
6. Health Care Premiums/Payroll Tax	648	408	—	1,720	1,560	3,408	—	—	—	1,600
7. Total Provincial Tax	8,903	8,183	12,462	15,023	11,823	19,845	12,405	13,130	12,106	14,468
8. Federal Income Tax	13,101	13,101	13,101	13,101	13,101	13,101	13,101	13,101	13,101	13,101
9. Net Federal GST	1,624	1,693	1,535	1,483	1,609	1,456	1,475	1,462	1,578	1,422
10. Total Tax	23,628	22,977	27,098	29,607	26,533	34,402	26,981	27,693	26,785	28,991
Senior Couple with Equal Pension Incomes — $30,000										
1. Provincial Income Tax	262	0	1,511	(328)	(350)	69	511	633	561	657
2. Property Tax — Gross	2,268	1,974	2,747	3,557	2,721	2,883	1,641	1,903	1,300	1,728
— Net	1,523	1,974	2,747	3,232	2,721	2,883	1,641	1,903	1,300	1,728
3. Sales Tax	628	7	501	674	875	1,204	1,106	1,070	1,110	1,130
4. Fuel Tax	110	90	150	115	147	192	107	135	130	165
5. Provincial Direct Taxes	2,523	2,071	4,909	3,693	3,393	4,348	3,365	3,741	3,101	3,680
6. Health Care Premiums/Payroll Tax	691	816	—	—	—	—	—	—	—	—
7. Total Provincial Tax	3,214	2,887	4,909	3,693	3,393	4,348	3,365	3,741	3,101	3,680
8. Federal Income Tax	844	844	844	844	844	844	844	844	844	844
9. Net Federal GST	772	800	696	728	754	797	750	718	814	771
10. Total Tax	4,830	4,531	6,449	5,265	4,991	5,989	4,959	5,303	4,759	5,295

Personal Income Tax

- Income tax is based on basic personal credits, applicable provincial credits, and typical major deductions at each income level. Quebec residents pay federal income tax less an abatement of 16.5 per cent of basic federal tax. This abatement has been used to reduce Quebec provincial tax rather than federal tax, for comparative purposes. The two income family of four with $60,000 annual income is assumed to have one spouse earning $40,000 and the other $20,000, the family with $90,000 income is assumed to have one spouse earning $50,000 and the other $40,000, the family with $30,000 is assumed to have each spouse earning $15,000 and each senior is assumed to receive $15,000. All representative families are assumed to have employment income except the senior couple. Contributions to the Quebec Health Services Fund are included in Quebec personal income tax.

Net Child Benefits

- Net child benefits are provincial measures affecting payments to families with children. Provincial child benefit measures are available in British Columbia (BC Family Bonus), Alberta (Family Employment Credit), Saskatchewan (Child Benefit), Ontario (Child Care Supplement for Working Families), Quebec (Integrated Child Allowance), New Brunswick (Child Tax Benefit), Nova Scotia (Child Benefit) and Newfoundland (Child Benefit). In addition, the Alberta government has chosen to vary the amount of the basic federal child tax benefit that their residents receive (shown as a net amount and calculated based on estimated values for 2002).

Property Tax

- Estimates of property taxes are from a survey of Royal LePage's on-line listings of residential properties for sale conducted in 2001. It is assumed that the individual at $25,000 rents accommodation; the family at $30,000 and at $55,000 and the senior couple own bungalows; the family at $90,000 owns a two-storey executive style home; and the single at $80,000 owns a luxury condominium, in a major city for each province. Net property taxes are estimated as taxes owing after credits provided through the property tax system are subtracted.

Sales and Fuel Tax Estimates

- Includes sales tax on meals, liquor and accommodation. Estimates are based on expenditure patterns from the 1996 Survey of Family Expenditures. In estimating individual and family taxable consumption, disposable income is reduced by 20 per cent to reflect housing (mortgage and property taxes or rent) costs. The senior couple is assumed to own their home and have no mortgage costs. For each province, disposable income is further reduced by estimated federal income taxes, estimated provincial income taxes and health care premiums if applicable. In addition, the single individual with $80,000 annual income and the family with $90,000 annual income are assumed to have savings equal to 5 per cent of their disposable income. For each family, disposable income is distributed among expenditures using the consumption pattern of a typical family with the relevant characteristics as estimated by the family expenditure survey. The provincial retail sales tax and the federal goods and services tax (GST) components of these expenditures are then calculated. GST estimates have been reduced by the GST credit, where applicable.
- Fuel tax is based on annual consumption: 1,000 litres of unleaded fuel for the single at $25,000, the family at $30,000 and the senior couple; others are assumed to consume 1,500 litres.

Health Care Premiums/Payroll Tax

- Health care premiums are levied in British Columbia and Alberta only. Approximately 50 per cent of British Columbia premiums are paid by employers on behalf of their employees with the remainder paid by individuals, either by employees or by residents who are not employed. Payroll taxes, in the four provinces that levy them, are paid by the employer. The cost to employers of payroll taxes and health care premiums paid on behalf of employees is generally reflected in reduced wages.

Effective Tax Rates

- British Columbia taxes have been calculated using rates in effect for 2002. Taxes for other provinces were calculated using rates that were announced prior to February 12, 2002, and come into effect during 2002.

TABLE A5

INTERPROVINCIAL COMPARISONS OF PROVINCIAL PERSONAL INCOME TAXES PAYABLE[1] — 2002
(Rates known as of February 12, 2002)

Taxable income[2]	British Columbia	Alberta	Saskatchewan	Manitoba	Ontario	Quebec[3]	New Brunswick	Nova Scotia	Prince Edward Island	Newfoundland
	Annual provincial taxes payable[4] ($)									
$10,000	79	0	166	100	0	1	178	0	0	218
$20,000	642	545	1,213	1,215	671	953	1,079	1,079	1,115	1,202
$30,000	1,206	1,476	2,261	2,254	1,235	2,254	1,981	2,060	2,027	2,209
$40,000	2,048	2,413	3,515	3,702	2,053	3,844	3,316	3,493	3,315	3,759
$50,000	2,963	3,413	4,840	5,242	2,968	5,445	4,798	4,988	4,695	5,375
$60,000	3,878	4,413	6,165	6,782	3,923	7,122	6,280	6,498	6,163	7,006
$70,000	4,991	5,413	7,715	8,422	5,270	9,007	7,875	8,165	7,952	8,968
$80,000	6,331	6,413	9,265	10,162	7,011	10,944	9,527	9,832	9,789	10,932
$100,000	9,203	8,413	12,365	13,642	10,493	14,845	12,831	13,482	13,463	14,861
$125,000	12,878	10,913	16,240	17,992	14,845	19,842	17,251	18,066	18,055	19,771
$150,000	16,553	13,413	20,115	22,342	19,197	24,676	21,711	22,651	22,648	24,682
	Provincial personal income taxes as a per cent of taxable income (%)									
$10,000	0.8	0.0	1.7	1.0	0.0	0.0	1.8	0.0	0.0	2.2
$20,000	3.2	2.7	6.1	6.1	3.4	4.8	5.4	5.4	5.6	6.0
$30,000	4.0	4.9	7.5	7.5	4.1	7.5	6.6	6.9	6.8	7.4
$40,000	5.1	6.0	8.8	9.3	5.1	9.6	8.3	8.7	8.3	9.4
$50,000	5.9	6.8	9.7	10.5	5.9	10.9	9.6	10.0	9.4	10.8
$60,000	6.5	7.4	10.3	11.3	6.5	11.9	10.5	10.8	10.3	11.7
$70,000	7.1	7.7	11.0	12.0	7.5	12.9	11.3	11.7	11.4	12.8
$80,000	7.9	8.0	11.6	12.7	8.8	13.7	11.9	12.3	12.2	13.7
$100,000	9.2	8.4	12.4	13.6	10.5	14.8	12.8	13.5	13.5	14.9
$125,000	10.3	8.7	13.0	14.4	11.9	15.9	13.8	14.5	14.4	15.8
$150,000	11.0	8.9	13.4	14.9	12.8	16.5	14.5	15.1	15.1	16.5

[1] Calculated for a single individual with wage income and claiming credits for Canada Pension Plan and Quebec Pension Plan contributions, Employment Insurance premiums and the basic personal amount. Quebec personal income tax is calculated using the simplified tax system which provides a minimum level of non-refundable credits that is greater than the basic personal credit amount.

[2] Taxable income, total income less allowable deductions, is defined by federal legislation in all provinces except Quebec. In the table, it is assumed that federally defined taxable income is equal to Quebec taxable income.

[3] Quebec residents pay federal tax less an abatement of 16.5 per cent of federal tax. In the table, the Quebec abatement has been used to reduce Quebec provincial personal income tax for comparative purposes.

[4] Includes provincial low income reductions in Manitoba, Ontario, Nova Scotia and Prince Edward Island, provincial surtaxes payable in Ontario, Nova Scotia, Prince Edward Island and Newfoundland and contributions to the Health Services Fund in Quebec. Excludes credits for sales and property taxes.

TABLE A6
SUMMARY ACCOUNTS OPERATING RESULTS[1]

	Actual 1998/99	Actual 1999/00	Actual 2000/01[2]	2001/02 July 30 Update[3]	2001/02 Revised Forecast[3]	Budget Estimate 2002/03
	($ millions)					
Consolidated revenue fund (CRF):						
Revenue[4]	20,306	21,846	24,027	22,924	22,853	22,038
Expenditure	(20,587)	(22,212)	(22,463)	(25,102)	(25,637)	(25,556)
CRF Balance	(281)	(366)	1,564	(2,178)	(2,784)	(3,518)
Crown corporations and agencies:						
Taxpayer-supported:						
British Columbia Buildings Corporation	49	45	51	40	38	34
British Columbia Ferry Corporation (BCFC)	(114)	(299)	11	3	17	16
BC Transportation Financing Authority	(114)	22	1	—	1	(56)
Forest Renewal BC	(265)	1	(64)	—	—	—
552513 British Columbia Ltd. (Skeena Cellulose Inc.)	(26)	(3)	—	(53)	(142)	—
Other	9	(44)	49	(7)	(15)	3
	(461)	(278)	48	(17)	(101)	(3)
Add: Impact of debt assistance for BCFC and Skeena	—	1,080	—	—	220	—
Less: Contributions paid to CRF	(14)	(78)	(69)	(18)	(22)	(19)
Other accounting adjustments[5]	(368)	(131)	(189)	(191)	(191)	(184)
Total taxpayer-supported	(843)	593	(210)	(226)	(94)	(206)
Self-supported commercial:						
British Columbia Hydro and Power Authority	395	416	446	420	395	345
Liquor Distribution Branch	616	617	642	616	627	640
British Columbia Lottery Corporation	456	532	562	585	600	660
British Columbia Railway Company	24	(582)	(7)	1	(118)	14
Insurance Corporation of British Columbia	74	96	139	35	(258)	(10)
Other	3	4	4	3	—	5
	1,568	1,083	1,786	1,660	1,246	1,654
Less: Contributions paid to CRF	(1,348)	(1,376)	(1,431)	(1,393)	(1,402)	(1,401)
BC Hydro rate stabilization account transfer	—	129	103	(45)	(195)	5
Other accounting adjustments[6]	(99)	(23)	(301)	(156)	(129)	(184)
Total self-supported commercial	121	(187)	157	66	(480)	74
Total net contribution (loss) of Crown corporations and agencies	(722)	406	(53)	(160)	(574)	(132)
Subtotal	(1,003)	40	1,511	(2,338)	(3,358)	(3,650)
Forecast allowance	—	—	—	(500)	(70)	(750)
Summary accounts (deficit) surplus before joint trusteeship	(1,003)	40	1,511	(2,838)	(3,428)	(4,400)
Joint trusteeship (one-time adjustment)	—	—	(52)	1,338	1,464	—
Summary accounts (deficit) surplus	(1,003)	40	1,459	(1,500)	(1,964)	(4,400)

[1] Unless otherwise stated, figures for prior years have been restated to be consistent with the presentation used in 2002/03.
[2] CRF revenue for 2000/01 has been restated to reflect a $39-million reduction in personal income tax revenue due to a federal error in the calculation of personal income tax remittances to BC resulting from capital gains refunds associated with mutual fund trusts for the 2000 tax year.
[3] For comparison purposes, figures for 2001/02 have been restated to reflect the inclusion of Forest Renewal BC revenue and expense in the CRF.
[4] CRF revenue amounts exclude dedicated revenue collected on behalf of, and transferred to, Crown corporations and agencies and other entities.
[5] Primarily reflects adjustments to record the amortization of the cost of highways transferred to the BC Transportation Financing Authority. Also includes one-time adjustments to reflect asset transfers and wind-up costs.
[6] Includes transfers of British Columbia Lottery Corporation revenue to charities and local governments, and adjustments to the Insurance Corporation of British Columbia and the British Columbia Railway Company to adjust their reporting results from a calendar year basis to government's fiscal reporting period ending March 31.

TABLE A7
REVENUE BY SOURCE[1]
CONSOLIDATED REVENUE FUND

	Actual 1998/99	Actual 1999/00	Actual 2000/01	2001/02 July 30 Update	2001/02 Revised Forecast	Budget Estimate 2002/03	Annual Rate of Growth 1998/99 to 2002/03
	($ millions)						(per cent)
Taxation Revenue:							
Personal income	5,423	5,839	5,976[2]	4,935	5,355	4,854	(2.7)
Corporation income	1,098	939	1,054	1,154	1,520	779	(8.2)
Social service	3,209	3,338	3,617	3,664	3,535	3,802	4.3
Fuel	654	470	443	416	400	395	(11.8)
Tobacco	505	498	460	463	470	622	5.3
Property — residential (school purpose)	511	529	538	541	537	548	1.8
Property — business (school purpose)	764	758	770	800	793	809	1.4
Property — rural area	61	63	63	65	67	68	2.8
Property transfer	223	245	262	275	290	297	7.4
Corporation capital	455	460	459	347	367	165	(22.4)
Insurance premium	195	199	196	200	200	210	1.9
Hotel room	79	86	93	97	90	91	3.6
Horse racing	4	3	—	—	—	—	(100.0)
	13,181	13,427	13,931	12,957	13,624	12,640	(1.0)
Less: commissions on collection of public funds	(24)	(24)	(23)	(24)	(36)	(30)	5.7
allowances for doubtful accounts	(23)	(25)	(14)	(25)	(25)	(25)	2.1
Total taxation revenue	**13,134**	**13,378**	**13,894**	**12,908**	**13,563**	**12,585**	(1.1)
Natural Resource Revenue:							
Petroleum and natural gas:							
Natural gas royalties	193	328	1,249	1,323	805	925	48.0
Permits and fees	106	248	462	351	340	292	28.8
Petroleum royalties	62	94	136	139	104	84	7.9
Sub-total	361	670	1,847	1,813	1,249	1,301	37.8
Minerals	44	47	53	53	61	69	11.9
Forests:							
Timber sales	815	1,041	821	814	804	910	2.8
Small Business Forest Enterprise Program	209	269	257	255	189	208	(0.1)
Logging tax	14	24	60	18	25	13	(1.8)
Other forests revenue	55	58	15	63	64	14	(29.0)
Forest Renewal BC[3]	—	—	—	187	163	—	
Sub-total	1,093	1,392	1,153	1,337	1,245	1,145	1.2
Water resources	306	297	294	301	284	251	(4.8)
Columbia River Treaty	16	100	632	475	355	85	51.8
Wildlife Act	15	15	15	14	14	14	(1.7)
Sub-total	337	412	941	790	653	350	1.0
Less: commissions on collection of public funds	(1)	(1)	(1)	(2)	(2)	(1)	0.0
allowances for doubtful accounts	(5)	(3)	(18)	(10)	(10)	(11)	21.8
Total natural resource revenue	**1,829**	**2,517**	**3,975**	**3,981**	**3,196**	**2,853**	11.8

TABLE A7 — *Continued*
REVENUE BY SOURCE[1]
CONSOLIDATED REVENUE FUND

	Actual 1998/99	Actual 1999/00	Actual 2000/01	2001/02 July 30 Update	2001/02 Revised Forecast	Budget Estimate 2002/03	Annual Rate of Growth 1998/99 to 2002/03
	($ millions)						(per cent)
Other Revenue:							
Medical Services Plan premiums	876	868	895	904	947	1,299	10.4
Motor vehicle licences and permits	329	336	342	345	345	347	1.3
Ministry of Attorney General fees	71	67	68	72	72	74	1.0
Land registries	35	35	33	32	38	38	2.1
Real estate earnings of the Crown Land special account	44	55	48	58	40	57	6.7
Coquihalla highway tolls	39	41	42	42	43	44	3.1
Registries Agency fees	36	36	36	37	36	38	1.4
Vital Statistics Agency fees	10	10	10	10	10	10	0.0
Ministry of Health fees	23	24	21	23	26	26	3.1
Provincial Treasury Operations and Insurance and Risk Management special accounts	27	33	22	21	20	20	(7.2)
Safety inspection fees	16	16	16	16	16	16	0.0
Waste management fees	12	12	11	12	13	11	(2.2)
Property tax collection fees	7	7	7	7	7	6	(3.8)
Financial Institutions Commission	2	2	1	1	1	1	(15.9)
Other fees and licences	42	25	15	18	18	17	(20.2)
	1,569	1,567	1,567	1,598	1,632	2,004	6.3
Less: commissions on collection of public funds	(51)	(14)	(7)	(6)	(7)	(6)	(41.4)
allowances for doubtful accounts	(34)	(5)	(17)	(18)	(42)	(47)	8.4
Sub-total	1,484	1,548	1,543	1,574	1,583	1,951	7.1
Investment earnings	51	60	112	70	60	50	(0.5)
Miscellaneous:							
Fines and penalties	112	108	99	85	85	82	(7.5)
Maintenance of children[4]	10	—	—	—	—	—	(100.0)
Insurance claim receipts	14	13	12	13	12	13	(1.8)
Other miscellaneous	101	114	114	122	140	125	5.5
	288	295	337	290	297	270	(1.6)
Less: commissions on collection of public funds	(4)	(3)	—	(7)	(8)	(8)	18.9
allowances for doubtful accounts	—	(4)	(19)	(31)	(31)	(19)	—
Sub-total	284	288	318	252	258	243	(3.8)
Asset dispositions[5]	63	52	—	—	—	—	(100.0)
Total other revenue	**1,831**	**1,888**	**1,861**	**1,826**	**1,841**	**2,194**	4.6

TABLE A7 — *Continued*
REVENUE BY SOURCE[1]
CONSOLIDATED REVENUE FUND

	Actual 1998/99	Actual 1999/00	Actual 2000/01	2001/02 July 30 Update	2001/02 Revised Forecast	Budget Estimate 2002/03	Annual Rate of Growth 1998/99 to 2002/03
	($ millions)						(per cent)
Contributions from Government Enterprises:							
Taxpayer-supported Crown corporations and agencies:							
British Columbia Buildings Corporation	2	71	50	16	15	13	59.7
Other	12	7	19	2	7	6	(15.9)
Sub-total	14	78	69	18	22	19	7.9
Self-supported Crown corporations and agencies:							
Liquor Distribution Branch	616	617	642	616	627	640	1.0
British Columbia Hydro and Power Authority	323	343	372	346	329	283	(3.3)
British Columbia Lottery Corporation	369	416	414	429	444	476	6.6
Other[6]	40	—	3	2	2	2	(52.7)
Sub-total	1,348	1,376	1,431	1,393	1,402	1,401	1.0
Total contributions from government enterprises	**1,362**	**1,454**	**1,500**	**1,411**	**1,424**	**1,420**	1.0
Contributions from the Federal Government:							
Canada health and social transfer	1,968	2,438	2,619	2,620	2,660	2,805	9.3
Education (public schools)	76	81	74	76	81	81	1.6
National Training Act	7	—	—	—	—	—	(100.0)
Employability assistance for persons with disabilities	35	27	28	27	27	27	(6.3)
Immigration services	22	22	22	20	20	19	(3.6)
Other payments	42	41	54	55	41	54	6.5
Total contributions from the federal government	**2,150**	**2,609**	**2,797**	**2,798**	**2,829**	**2,986**	8.6
TOTAL REVENUE	**20,306**	**21,846**	**24,027**	**22,924**	**22,853**	**22,038**	2.1

TABLE A7 — *Continued*
REVENUE BY SOURCE[1]
CONSOLIDATED REVENUE FUND

	Actual 1998/99	Actual 1999/00	Actual 2000/01	2001/02 July 30 Update	2001/02 Revised Forecast	Budget Estimate 2002/03	Annual Rate of Growth 1998/99 to 2002/03
	($ millions)						(per cent)
DEDICATED REVENUE COLLECTED ON BEHALF OF, AND TRANSFERRED TO, CROWN CORPORATIONS AND AGENCIES, AND OTHER ENTITIES							
British Columbia Transit[7]	94	8	7	8	7	7	(47.8)
Greater Vancouver Transportation Authority[8]	—	182	173	197	200	242	—
BC Transportation Financing Authority[9]	124	176	202	204	201	203	13.1
British Columbia Ferry Corporation[10]	—	65	73	74	73	74	—
Tobacco Tax Amendment Act[11]	2	2	2	1	2	2	—
Rural Area Property Taxes[12]	147	149	156	168	168	182	5.5
Tourism British Columbia[13]	20	22	24	25	23	23	3.6
Oil and Gas Commission[14]	6	13	18	15	18	18	31.6
Forest Renewal BC[15]	177	302	187	—	—	—	(100.0)
BC Racing Commission[16]	—	—	—	14	14	14	—
Total Dedicated Revenue	**570**	**919**	**842**	**706**	**706**	**765**	7.6

[1] Unless otherwise indicated, figures for prior years have been restated to be consistent with the presentation used in 2002/03. Consolidated Revenue Fund revenue amounts exclude dedicated revenue collected on behalf of, and transferred to, Crown corporations and agencies, and other public bodies.
[2] CRF revenue for 2000/01 has been restated to reflect a $39-million reduction in personal income tax revenue due to a federal error in the calculation of personal income tax remittances to BC resulting from capital gains refunds associated with mutual fund trusts for the 2000 tax year.
[3] For comparison purposes, figures for 2001/02 have been restated to include revenue of Forest Renewal BC, which will be dissolved and included as part of the CRF at the end of 2001/02.
[4] Beginning in 1999/00, maintenance of children revenue is recorded as a recovery to, or off the related ministry program expenditure vote.
[5] Includes revenue realized through dispositions of assets resulting from reviews of government properties, agencies and other assets to identify those assets surplus to government's needs.
[6] Includes British Columbia Railway Company and other Crown corporations and agencies.
[7] The 1998/99 figure includes motor fuel tax collected in the Vancouver and Victoria regional transit areas. Effective April 1, 1999, figures include motor fuel tax collected in the Victoria regional transit area only (2.5 cents/litre on clear gasoline and motive fuel), as a result of the creation of the Greater Vancouver Transportation Authority *(TransLink)*.
[8] Effective April 1, 1999, includes 8 cents/litre on clear gasoline and motive fuel (4 cents/litre of which was previously collected on behalf of British Columbia Transit) and social service tax on parking in the Vancouver transit area. Effective April 1, 2001, the tax transferred increased to 9 cents/litre on clear gasoline and motive fuel. Effective April 1, 2002, includes an additional 2 cents/litre collected on behalf of the Greater Vancouver Transportation Authority.
[9] Includes motor fuel tax and social service tax on short-term rentals of passenger vehicles. The 1999/00 figure is based on a transfer of 3 cents/litre on clear gasoline and motive fuel (up from 2 cents/litre effective June 1, 1999). Effective April 1, 2000, the transfer is 3.25 cents/litre on clear gasoline and motive fuels.
[10] Includes 1 cent/litre on motor fuel tax for the period April 1, 1999 to September 30, 1999, and 1.25 cents/litre effective October 1, 1999.
[11] Includes tobacco tax collected on behalf of the Cowichan Tribes in respect of the Cowichan Tribes Agreement.
[12] Includes local taxes collected on behalf of local governments in rural areas.
[13] Includes 1.65 percentage points of the 8-per-cent provincial hotel room tax.
[14] Includes fees collected under the *Petroleum and Natural Gas Act*, the *Pipeline Act*, and a levy assessed under the *Oil and Gas Commission Levy Regulation*.
[15] Includes incremental stumpage and royalty revenue resulting from changes to rates introduced under the provincial government's Forest Renewal Plan on and after May 1, 1994. For comparison purposes, figures for 2001/02 have been restated to exclude revenue of Forest Renewal BC, which will be dissolved and included as part of the CRF at the end of 2001/02.
[16] Prior to 2001/02, this was recorded as a recovery to a voted appropriation.

TABLE A8
EXPENSE BY FUNCTION
CONSOLIDATED REVENUE FUND

	Actual 1998/99	Actual 1999/00	Actual 2000/01	2001/02[1] July 30 Update	2001/02[1] Forecast	Budget 2002/03	Plan 2003/04	Plan 2004/05	Rate of Growth from July 30 Update 2001/02 to 2004/05
	($ millions)								(per cent)
Health	7,479	8,017	8,745	9,646	9,964	10,380	10,374	10,378	7.6
Social services	3,031	3,011	3,126	3,400	3,369	3,197	2,784	2,368	(30.4)
Education	5,825	5,975	6,357	6,862	6,862	6,871	6,871	6,871	0.1
Protection of persons and property	1,071	1,110	1,101	1,199	1,232	1,200	1,098	1,008	(15.9)
Transportation	790	1,697[2]	611	667	709	734	721	677	1.5
Natural resources and economic development	932	962	1,028	1,373	1,743	1,065	929	814	(40.7)
Other	372	359	341	397	420	370	360	345	(13.1)
Government Restructuring (All Ministries)	—	—	—	—	95	230	165	—	—
Contingencies (All Ministries)[3]	—	—	—	360	58	210	210	210	(41.7)
General government	249	246	265	375	387	379	338	275	(26.7)
Debt servicing	838	835	889	823	798	920	1,085	1,182	43.6
TOTAL EXPENDITURE	20,587	22,212	22,463	25,102	25,637	25,556	24,935	24,128	(3.9)

[1] Figures for 2001/02 have been reclassified based on more accurate information and to more closely follow the presentation used by Statistics Canada. CRF expenditure has been increased (budget: $294 million; revised forecast: $361 million) to reflect the inclusion of Forest Renewal BC expenditures as part of CRF spending for comparison to future years. CRF expenditure has been increased by $58 million to reflect a reclassification of the amortization of unfunded pension liabilities as part of joint trusteeship which is shown as an adjustment to the summary accounts bottom line. There is no effect on the summary accounts deficit.

[2] Includes forgiveness of $1.08 billion of debt owed to the government by BC Ferry Corporation.

[3] The Contingencies vote is allocated to functions according to specific pressures in actual figures for 1998/99 to 2000/01. The 2001/02 forecast contingencies amount represents unallocated potential pressures, while the remainder of the budget is allocated to functions according to specific pressures (see Table 3.3).

TABLE A9
CONSOLIDATED REVENUE FUND REVENUE ASSUMPTIONS AND SENSITIVITIES

Revenue Source and Assumptions ($ millions)	2001/02 July 30 Update	2001/02 Revised Forecast	Budget Estimate 2002/03	Plan 2003/04	Plan 2004/05	Sensitivities 2002/03
Personal Income Tax	**$4,935**	**$5,355**	**$4,854**	**$5,159**	**$5,499**	
BC personal income growth	3.2%	2.2%	2.0%	3.6%	4.0%	±1% change in 2001 personal income growth equals ±$50 to $75 million as a prior-year adjustment (in 2002/03) and could result in an additional revenue-base change in 2002/03 and in future years
BC tax base growth	3.3%	2.2%	2.5%	4.6%	5.0%	
Includes Budget 2002 measures:						
Increase sales tax credit		−$5	−$20	−$20	−$20	
Increase disability-related tax credits		−$1	−$4	−$4	−$4	
BC Family Bonus adjustments			+$3	+$8	+$12	
Prior-year assessments:						
2000 personal income growth	5.3%	5.2%				±1% change in 2002 BC personal income growth equals ±$50 to $100 million
2000 tax-base growth	3.2%	7.5%				
A correction of a recent federal error in the calculation of personal income tax remittances to BC has been factored into the revenue forecast for 2001/02 and onwards. The forecast does not assume a reduction in revenue in respect of errors relating to 1999 and prior years as the amounts and resolution are under review.						
Corporation Income Tax	**$1,154**	**$1,520**	**$779**	**$793**	**$1,009**	
National tax base growth	−1.0%	1.9%	−10.0%	10.0%	10.0%	±1% change in the 2002 national tax base equals ±$10 to $15 million
BC instalment share	8.9%	8.9%	9.5%	7.9%	8.4%	
BC corporate profits growth	5.0%	−15.0%	−7.5%	7.5%	7.5%	
BC general tax rate	16.5%	16.5%	13.5%	13.5%	13.5%	±1% change in the 2001 BC tax base equals ±$10 to $15 million in 2002/03
Includes Budget 2002 measure of raising the small business taxable income threshold			−$10	−$13	−$13	
Prior-year adjustments	−$50	+$283	−$152	−$80	−$55	
2000 and prior years tax-base growth	15%	39%				
Revenue is recorded on a cash basis. Due to lags in the federal collection and instalment systems, changes to the BC corporate profits and tax base forecasts affect revenue in the succeeding year. For example, 2002/03 instalments from the federal government are based on BC's share of the national tax base for the 2000 tax-year (assessed as of December 31, 2001) and a forecast of the 2002 national tax base.						
Social Service Tax	**$3,664**	**$3,535**	**$3,802**	**$3,982**	**$4,175**	
Consumer expenditure growth	4.1%	3.6%	3.2%	4.8%	4.8%	±1% change equals ±$25 to $35 million
Machinery and equipment spending growth	2.5%	4.1%	2.3%	5.4%	5.9%	±1% change equals ±$10 to $20 million
Includes Budget 2002 measures:						
Various exemptions/refunds			−$17	−$17	−$17	
General rate increased to 7.5%			+$250	+$250	+$250	
Tobacco Tax	**$463**	**$470**	**$622**	**$624**	**$627**	
Population growth	0.9%	0.9%	0.8%	1.0%	1.2%	±1% change in population growth equals up to ±$10 million
Includes Budget 2002 measure:						
Tax/carton of 200 cigarettes ($)	$22.00	$22.00	$30.00	$30.00	$30.00	
Tax/gram of loose tobacco (¢)	11¢	11¢	15¢	15¢	15¢	
Additional revenue			+$150	+$150	+$150	
Forecast assumes some change in behaviour in response to the higher tax rates.						
Property Taxes	**$1,406**	**$1,397**	**$1,425**	**$1,454**	**$1,485**	
BC housing starts growth	8.2%	19.5%	5.6%	8.5%	9.7%	Tax assessments for 2002 are not finalized. Overall forecast risk up to ±$15 million.
Includes Budget 2002 measures to increase provincial residential (school) and rural property taxes			+$21	+$21	+$21	

TABLE A9
CONSOLIDATED REVENUE FUND REVENUE ASSUMPTIONS AND SENSITIVITIES
— Continued

Revenue Source and Assumptions ($ millions)	2001/02 July 30 Update	2001/02 Revised Forecast	Budget Estimate 2002/03	Plan 2003/04	Plan 2004/05	Sensitivities 2002/03
Fuel, Corporation Capital and Other Taxes	**$1,335**	**$1,347**	**$1,158**	**$1,105**	**$1,143**	
Nominal GDP growth	3.6%	1.0%	1.0%	4.2%	4.7%	±1% change in economic factors determining growth equals ±$15 to $25 million
Real GDP growth	2.2%	0.7%	0.6%	2.8%	3.1%	
Fuel tax ($ millions)	$416	$400	$395	$398	$413	
Corporation capital tax ($ millions)	$347	$367	$165	$90	$91	
Other taxes ($ millions)	$572	$580	$598	$617	$639	
Corporation capital tax general rate (as of September 1)	0.15%	0.15%	0.0%	0.0%	0.0%	
Tax-point transfer to GVTA *(TransLink)** (¢/litre)	9.0¢	9.0¢	9.0¢	9.5¢	9.5¢	
* For details regarding the value of fuel tax-point transfers to GVTA, BCTFA, BC Ferries and BC Transit, see Table A7.						
Petroleum, Natural Gas and Minerals	**$1,866**	**$1,310**	**$1,370**	**$1,475**	**$1,529**	±$0.50 change in the natural gas price equals ±$125 to $175 million
Natural gas price ($Cdn/gigajoule)	$6.00	$3.35	$3.65	$3.90	$3.95	±1% change in natural gas volumes equals ±$5 to $15 million
Natural gas volumes (annual per cent change)	7.9%	21.0%	3.8%	1.9%	1.8%	±5% change in price or volume of land sales equals ±$12 million
Auctioned land base (000 hectares)	1,000	692	653	653	653	
Average bid price/hectare ($)	$305	$425	$375	$375	$375	
Forests	**$1,150**	**$1,082**	**$1,145**	**$1,278**	**$1,297**	
FRBC*	**$ 187**	**$ 163**	**—**	**—**	**—**	±US$50 change in SPF price equals ±$125 to $150 million
Total Gross Revenue	**$1,337**	**$1,245**	**$1,145**	**$1,278**	**$1,297**	±US$100 change in hemlock price equals ±$15 to $25 million
SPF 2x4 price ($US/1000 bd ft, calendar year average)	$259	$248	$250	$275	$275	±US$50 change in pulp price equals ±$10 to $15 million
Hemlock price ($US/1000 bd ft, calendar year average)	$582	$583	$600	$600	$600	±10% change in Interior harvest volumes equals ±$60 to $100 million
Pulp price ($US/tonne, calendar year average)	$564	$541	$500	$550	$594	±10% change in Coastal harvest volumes equals ±$20 to $30 million
Interior Crown harvest volumes (million cubic metres)	46.5	44.7	44.0	45.0	46.0	
Coastal Crown harvest volumes (million cubic metres)	15.0	13.9	14.0	14.5	15.0	
* Combined with Forests revenue as FRBC will be dissolved at the end of 2001/02.						
Columbia River Treaty Sales	**$475**	**$355**	**$85**	**$165**	**$185**	
Annual quantity fixed by treaty (million mega-watt hours)	2.5	2.5	2.5	4.5	4.5	
Market prices (annual per cent change)	−34.5%	−61.0%	−69.2%	8.3%	15.4%	±10% change in average selling price equals ±$5 to $15 million
Based on BC Hydro's January 18, 2002 outlook for forward prices						
Other Sources: Fees, Licences and Miscellaneous	**$1,826**	**$1,841**	**$2,194**	**$2,264**	**$2,322**	
Population growth	0.9%	0.9%	0.8%	1.0%	1.2%	±1% change in population growth equals up to ±$15 million in MSP premiums
Nominal GDP growth	3.6%	1.0%	1.0%	4.2%	4.7%	
Real GDP growth	2.2%	0.7%	0.6%	2.8%	3.1%	
MSP premiums including Budget 2002 measures	$904	$947	$1,299	$1,342	$1,353	
One time revenue (prior years)		$33				
Budget 2002 measure of increasing MSP premiums			$358	$392	$392	

TABLE A9

CONSOLIDATED REVENUE FUND REVENUE ASSUMPTIONS AND SENSITIVITIES
— Continued

Revenue Source and Assumptions ($ millions)	2001/02 July 30 Update	2001/02 Revised Forecast	Budget Estimate 2002/03	Plan 2003/04	Plan 2004/05	Sensitivities 2002/03
Contributions from Government Enterprises — based on Business Service Plans	**$1,411**	**$1,424**	**$1,420**	**$1,523**	**$1,568**	See Table A11 for assumptions and sensitivities for the Crown corporations.
Canada health and social transfer (CHST)	**$2,620**	**$2,660**	**$2,805**	**$2,930**	**$3,075**	
National cash ($ billion)	$17.3	$17.3	$18.6	$19.3	$20.4	±1% change in the national base (cash and tax points) equals ±$40 to $50 million, assuming no change to the BC income tax bases ±1% change in BC population with no change in national population equals ±$40 to $50 million. 1% increase (decrease) in the BC income tax bases reduces (increases) revenue by $15 to $20 million
National tax points ($ billion)	$15.7	$16.1	$16.4	$17.3	$17.9	
BC entitlement (share of national population)	13.2%	13.2%	13.1%	13.1%	13.2%	
BC tax point offset ($ billion)	−$1.7	−$1.7	−$1.8	−$1.9	−$2.0	
Forecast does not assume any change in revenue that may result from entitlement to Equalization transfer payments.						

TABLE A10

CONSOLIDATED REVENUE FUND EXPENDITURE ASSUMPTIONS AND SENSITIVITIES

Ministry Programs and Assumptions	2001/2002[1] July 30 Update	2001/2002[1] Revised Forecast	Budget Estimate 2002/03	Plan 2003/04	Plan 2004/05	Sensitivities 2002/03
Advanced Education $ millions	**1,892**	**1,892**	**1,900**	**1,900**	**1,900**	
Student Spaces (# of FTEs)	*155,000*	*155,000*	*157,500*	*160,000*	*163,500*	*The number of student spaces may vary depending on the tuition fee policies adopted by post-secondary institutions.*
Debt Service Costs — $ millions	*142*	*140*	*145*	*150*	*164*	*A 1% change in interest rates affects annual debt service costs by approximately $1.8 million.*
Student Loans Authorized — $ millions	*113*	*90*	*143*	*150*	*158*	*A 1% change in interest rates affects annual costs by approximately $3.6 million.*
			Assumes higher demand for student loans.			
Loans and Grants — volume (#)	*68,000*	*67,000*	*71,740*	*77,300*	*83,880*	*A 1% change in demand affects costs by $1.4 million.*
Attorney General $ millions	**564**	**564**	**556**	**497**	**481**	
Criminal caseload — volume (#)	*128,000*	*128,000*	*125,000*	*124,000*	*123,000*	*A 10% change in criminal caseload level affects cost by approximately $9 million annually.*
			The average annual cost of funding each additional criminal case is expected to be approximately $800.			
Civil Court hours — volume (#)	*75,000*	*75,000*	*72,900*	*72,500*	*72,500*	*A 10% change in the number of civil court hours affects costs by approximately $5 million annually.*
			The average annual cost of funding each additional civil court hour is approximately $600.			
Number of Court Locations (#)	*99 locations 68 staffed 31 unstaffed*		*74 locations 43 staffed 31 unstaffed*			*The average savings per court closure is $400,000.*
			The annual savings from court closures is expected to be approximately $9 million.			
Statutory services — Crown Proceeding Act (CPA) — $ millions	*30*	*40*	*30*	*30*	*30*	*Actual annual expenditures vary with the volume/size of claims and timing of settlements. Over the past ten years, the annual cost of settlements has varied from $2 million to $81 million.*
			The budget provides funding based on a historical ten year average of CPA expenditures.			
Children and Family Development $ millions	**1,553**	**1,544**	**1,558**	**1,394**	**1,191**	
Children-in-care caseload (#)	*10,300*	*10,200*	*9,700*	*9,100*	*8,400*	*A 5% change in caseload affects annual costs by approximately $10 million to $15 million.*
			The average annual residential cost per child in care is expected to decrease from approximately $28,000 in 2001/02 to $23,000 in 2004/05.			

[1] Restated for consistency with 2002/03 presentation.

TABLE A10
CONSOLIDATED REVENUE FUND EXPENDITURE ASSUMPTIONS AND SENSITIVITIES — *Continued*

Ministry Programs and Assumptions	2001/2002[1] July 30 Update	2001/2002[1] Revised Forecast	Budget Estimate 2002/03	Plan 2003/04	Plan 2004/05	Sensitivities 2002/03
Community Living Services caseload (#)	*8,250*	*8,850*	*8,850*	*8,850*	*9,000*	*A 5% change in caseload affects annual costs by approximately $23 million to $30 million.*
			The average annual cost per client is expected to decrease from approximately $64,000 in 2001/02 to $51,000 in 2004/05.			
Community, Aboriginal and Women's Services $ millions	**559**	**559**	**555**	**533**	**478**	
2010 Winter Olympic Bid — $ millions	*2*	*2*	*2*	*2*	*TBD*	
			A decision on the winning bid will be made in July 2003. No funding for hosting the Games or for related infrastructure has been included in the budget.			
Education $ millions	**4,842**	**4,842**	**4,861**	**4,861**	**4,861**	
Student Enrolment (# of FTEs)	*595,000*	*595,000*	*592,000*	*591,000*	*589,000*	*A 1% change in enrolment affects annual costs by approximately $32 million.*
			Assumes a 1% decline in student enrolment over the three year period.			
Class size Kindergarten	*20 maximum*		*19 district average*			*A one-student per class change in K-12 affects annual costs by approximately $60 million.*
Class size Grades 1-3	*22 maximum*		*21 district average*			
Class size Grades 4-12	*Variable*		*30 district average*			
Debt service costs — $ millions	*356*	*330*	*363*	*363*	*363*	*A 1% change in interest rates affects annual debt service costs by $7 million.*
Energy and Mines $ millions	**67**	**67**	**50**	**45**	**40**	
Vancouver Island Natural Gas Pipeline Act and the Squamish Rate Stabilization Facility — $ millions	*33*	*33*	*21*	*20*	*19*	*Each Cdn$1 per GJ change in the average natural gas price for the fiscal year affects annual costs by $6 million.*
			Assumes median price of $3.75/GJ.			
Forests $ millions	**832**	**867**	**621**	**528**	**476**	*For comparability, 2001/02 is restated to include expenditures of Forest Renewal BC.*
Direct Fire Fighting — $ millions	*86*	*54*	*55*	*55*	*55*	*Dryer-than-normal weather, particularly in the Interior, would likely affect costs. The annual cost of fighting forest fires has varied from $19 million to $154 million.*
			The budget provides funding based on a historical median fire year and assumes implementation of a cost-shared fire protection model.			

[1] Restated for consistency with 2002/03 presentation.

TABLE A10

CONSOLIDATED REVENUE FUND EXPENDITURE ASSUMPTIONS AND SENSITIVITIES — *Continued*

Ministry Programs and Assumptions	2001/2002[1] July 30 Update	2001/2002[1] Revised Forecast	Budget Estimate 2002/03	Plan 2003/04	Plan 2004/05	Sensitivities 2002/03
Health Services $ millions	**9,516**	**9,746**	**10,205**	**10,206**	**10,206**	
Pharmacare — $ millions	**709**		**718**	**630**	**723**	
Demand/cost growth (per cent change)	*9*	*15*	*15*	*15*	*15*	*An 11% change in utilization affects costs by approximately $70 million; a 4% change in drug prices affects costs by approximately $25 million.*
Budget Management Strategies		*Savings from deductible/ co-payment changes implemented January 1, 2002 offset anticipated demand/cost pressures.*				
			Additional savings from implementation of income testing for Plans A (Seniors) and E (Universal) on January 1, 2003 offset anticipated demand/cost pressures.			
Medical Services Plan (MSP) — $ millions	**2,244**		**2,518**	**2,549**	**2,583**	
Population/ Demographic growth in physician costs (per cent change)	*1.8*	*1.9*	*1.6*	*1.6*	*1.7*	*A 2% change in the volume of services provided by fee-for-service physicians affects MSP costs by approximately $38 million.*
Arbitration of Working Agreement with physicians			*Includes preliminary estimate of annualized cost of interim award.*			*Finalization of Working Agreement arbitration could affect program costs.*

[1] Restated for consistency with 2002/03 presentation.

TABLE A10

CONSOLIDATED REVENUE FUND EXPENDITURE ASSUMPTIONS AND SENSITIVITIES — *Continued*

Ministry Programs and Assumptions	2001/2002[1] July 30 Update	2001/2002[1] Revised Forecast	Budget Estimate 2002/03	Plan 2003/04	Plan 2004/05	Sensitivities 2002/03
Supplementary Benefits	*Base savings from changes to chiropractic, massage therapy, physiotherapy, naturopathy, non-surgical podiatry (implemented January 1, 2002) are reallocated to fund population/ demographic growth in physician services.*					*A 1% change in the average number of supplementary services per beneficiary affects MSP costs by approximately $0.5 million.*
			Future demand growth in supplementary benefits will be managed by prorationing and/or reallocating funding between practitioner groups.			
Regional Health Sector — $ millions	*5,933*		*6,337*	*6,405*	*6,297*	*A 1% change in population affects annual costs by approximately $60 million.* *A 1% wage increase affects annual costs by approximately $45 million.*
			Includes increased funding of approximately $365 million for the health authorities to cover increased compensation costs in the health sector. Compensation cost increases in 2002/03 are largely funded through MSP premium increases. Assumes population growth and non-wage inflation pressures can be managed within the existing budget.			
			The health authorities are responsible for planning and managing health care service delivery. The mix of health care services will be determined by regional health authorities based on the essential health needs of each region's population. Performance contracts between the ministry and health authorities will identify expectations for health care outcomes and results.			

[1] Restated for consistency with 2002/03 presentation.

TABLE A10

CONSOLIDATED REVENUE FUND EXPENDITURE ASSUMPTIONS AND SENSITIVITIES — *Continued*

Ministry Programs and Assumptions	**2001/2002**[1] July 30 Update	**2001/2002**[1] Revised Forecast	Budget Estimate **2002/03**	Plan **2003/04**	Plan **2004/05**	**Sensitivities 2002/03**
Anticipated service changes include:						
Acute inpatient & day surgery cases (#)	*625,000*	*625,000*	*615,000*	*625,000*	*625,000*	
			The health authorities will collaborate with the health ministries in the development of surgical performance measures and principles for establishing priority care for non-emergency cases. These principles and measures will be introduced in 2003/04.			
Mental Health — new community beds to replace Riverview beds (#)	*10*	*10*	*106*	*298*	*62*	
			The health authorities will introduce best practices as identified in the Mental Health Plan.			
Home and Community Care — assisted living units under construction (#)	*0*	*0*	*0*	*1,750*	*1,750*	
			Introduction of assisted living/ supportive housing units to keep clients in the community in accordance with the provincial Home and Continuing Care Plan.			
Administrative expenses as a percent of total expenses	*25.8*	*25.8*	*25.8*	*Reduced percentage*	*Reduced percentage*	
			The health authorities will reduce the ratio of support and administration costs to overall expenditures to maximize funding for patient care.			
Emergency Health Services — $ millions	*192*		*188*	*188*	*188*	
			Savings from reduced inter-facility transfers, redirection of low priority calls, reduced paid training and program management, and efficiencies are expected to offset anticipated wage, demand and inflation pressures totalling $55 million over three years.			

[1] Restated for consistency with 2002/03 presentation.

TABLE A10

CONSOLIDATED REVENUE FUND EXPENDITURE ASSUMPTIONS AND SENSITIVITIES — *Continued*

Ministry Programs and Assumptions	2001/2002[1] July 30 Update	2001/2002[1] Revised Forecast	Budget Estimate 2002/03	Plan 2003/04	Plan 2004/05	Sensitivities 2002/03
Human Resources $ millions	**1,937**	**1,929**	**1,789**	**1,550**	**1,356**	
Temporary and Continuous Assistance Average Caseload (#)	*155,440*	*157,130*	*146,700*	*131,180*	*117,710*	*A 1% change in caseload affects expenditures by approximately $12 million annually. A 1% change in the unemployment rate affects expenditures by approximately $40 million annually.*
			Caseload assumptions are based on an annual average unemployment rate of 6.9% over the three years.			
Temporary and Continuous Assistance — Average Cost per Case ($)	*686*	*686*	*665*	*609*	*536*	*The average cost per case is sensitive to behaviour changes, composition of the caseload, and factors such as treatment of income and length of time on income assistance. A 1% change in the annual average cost per case affects expenditure by approximately $8 million to $12 million.*
			These costs reflect the average payments per case. Actual income levels for income assistance clients are higher due to income from other sources.			
Public Safety and Solicitor General $ millions	**498**	**497**	**506**	**475**	**441**	*Additional 2001/02 spending funded from contingencies.*
Corrections — number of inmates (#)	*2,200 - 2,400*	*2,250*	*2,150 - 2,350*	*2,150 - 2,350*	*2,150 - 2,350*	*A 1% change in the prison population affects costs by $1.1 million.*
Emergency Program Act — $ millions	*17*	*17*	*16*	*17*	*16*	*Actual costs will vary depending on the number or severity of natural disasters such as earthquakes or floods.*
			The budget provides funding based on a historical average other than extraordinary occurances.			
Transportation $ millions	**673**	**671**	**739**	**725**	**681**	
Amortization portion of the Public Transit Vote — $ millions	*27*	*43*	*53*	*50*	*50*	*Earlier completion could affect annual amortization expenditures.*
			Assumes substantive completion of the SkyTrain Millennium Line in 2002/03 and completion of any additional extensions after 2004/05.			

[1] Restated for consistency with 2002/03 presentation.

TABLE A10

CONSOLIDATED REVENUE FUND EXPENDITURE ASSUMPTIONS AND SENSITIVITIES — *Continued*

Ministry Programs and Assumptions	2001/2002[1] July 30 Update	2001/2002[1] Revised Forecast	Budget Estimate 2002/03	Plan 2003/04	Plan 2004/05	Sensitivities 2002/03
Public Sector Pension Liability $ millions	**126**	**0**	**0**	**0**	**0**	*In fiscal 2001/02, the last of the unfunded pension liabilities was eliminated. If their triennial actuarial evaluations show them to be in unfunded pension liability (UPL) position, the province would be required to pick up its 50% share in any UPL as an expense.*
Management of Public Funds and Debt $ millions	**823**	**798**	**920**	**1,085**	**1,182**	*A 1% change in interest rates affects direct operating debt interest expense by $88 million and by $121 million when taxpayer-supported debt is included.*
Expected interest rates (per cent)						
short term:	*4.7*	*3.31*	*2.94*	*4.31*	*4.88*	
long term:	*6.6*	*6.43*	*6.51*	*6.68*	*7.30*	
Government Restructuring (All Ministries) $ millions	**0**	**95**	**230**	**165**	**0**	*For further detail see topic box.*
Workforce Adjustment $ millions	**0**	**85**	**65**	**65**	**0**	
FTE reduction incurring severance costs (#)		**2,600**	**1,900**	**1,900**	**0**	*A 10% change in the estimated number of FTEs incurring severance, or in the average cost of severance, would affect costs by approximately $22 million.*
			Assumes average cost of $33,000 per FTE.			
Accommodation Initiative $ millions	**0**	**0**	**135**	**45**	**0**	*As ministry plans are confirmed, costs may change.*
			Estimates based on preliminary restructuring plans per ministries.			
Government-Wide Issues						
Compensation			*During the 2002/03 through 2004/05 period, virtually all collective agreements expire. Agreements expiring over the next three years will be settled under a new bargaining mandate. There will be no across-the-board, general wage increases for sectors. Legitimate skills shortages may be addressed by employers through market adjustment increases. The provincial government will not provide funding for market adjustment increases.*			

[1] Restated for consistency with 2002/03 presentation.

TABLE A11
CROWN CORPORATION ASSUMPTIONS AND SENSITIVITIES

Crown Corporation and Assumptions ($ millions)	2001/02 July 30 Update	2001/02 Revised Forecast	Budget Estimate 2002/03	Plan 2003/04	Plan 2004/05	Sensitivities 2002/03
British Columbia Buildings Corporation						±10% in timing/extent of ministry restructuring=±$3-5 million
Net income (loss)	40	38	34	43	56	±10% in energy prices=±$2 million
Short-term interest rates	4.4%	3.3%	2.9%	4.3%	4.9%	±1% in interest rates=±$0.6 million
Gains on disposal of property	7.0	6.2	6.0	14	17	Value and timing of property sales depend on market.
Capital spending	up to 85	up to 59	up to 70	up to 56	up to 52	±$10 million in capital spending=±$0.5 million in net expenses
Dividend to CRF	16	15	13	17	22	Potential move to full property tax=up to +$14 million in costs depending on implementation timing
Grants in lieu of taxes for owned properties (status quo)	19	19	19	19	19	
British Columbia Ferry Corporation						
Net income (loss)	2.5	17	16	25	21	
Capital spending	89	68	103	187	164	
Traffic volume trends	+1.0%	+1.5%	+1.6%	+1.5%	1.9%	±1% in traffic volumes=±$3 million
Toll increases	None	None	CPI	None	CPI	±1% in fuel prices=±$0.5 million
Fuel costs	54	47	51	54	54	Sale of *PacifiCats* dependent on market conditions
Dedicated motor fuel tax	74	73	74	76	78	
Sale of *PacifiCats*	—	—	—	120	—	
BC Transportation Financing Authority						
Net income (loss)	—	0.8	(56)	(77)	(102)	
Capital spending	331	331	254	221	217	±1% in provincial fuel consumption volumes=±$2 million.
Dedicated tax revenue	204	201	203	209	214	±1% in floating/new-fixed borrowing rates=±$5 million in interest costs.
Average floating/new fixed borrowing rate	6.0%	6.0%	5.6%	5.8%	6.4%	
British Columbia Hydro and Power Authority						Range of net income up to $300 million, depending on total impact of the following non-controllable factors:
Net income before transfer (to) from rate stabilization account	375	200	350	400	285	±5% in average temperatures=±$5 million in income
Transfer (to) from rate stabilization account	45	196	(5)	(36)	77	±1% in hydro generation=±$15 million in income
Dividend to CRF	346	329	283	301	297	±$5/MW.h in electricity trade margins=±$115 million in income
Capital spending	600	534	745	790	745	±10% in natural gas prices=±$15 million
Weather patterns	Normal	Normal	Normal	Normal	Normal	±100 basis points in borrowing rate=±$25 million in finance costs.
Water inflow levels (snowpack)	81%	88%	100%	100%	100%	±1¢ in exchange rates=±$40 million in finance costs
Domestic load growth	0.0%	−1.0%	−0.1%	+1.6%	+0.5%	
BC real GDP	2.2%	0.7%	0.6%	2.8%	3.1%	
Forward energy price date	Jun 01/01	mid-Jan/02	mid-Jan/02	mid-Jan/02	mid Jan/02	
CDN short-term interest rates	4.5%	3.3%	2.9%	4.3%	4.9%	
Exchange rate (US/CDN)	65¢	64¢	64¢	65¢	67¢	
British Columbia Liquor Distribution Branch						
Net income	616	627	640	650	650	Price competition, economic conditions, weather patterns and timing of holidays affect sales.
Net sales increase	0.4%	2.9%	1.8%	1.6%	0.7%	±1% in sales volume=±$6 million in net income
Capital spending	31	30	22	11	10	

TABLE A11

CROWN CORPORATION ASSUMPTIONS AND SENSITIVITIES — *Continued*

Crown Corporation and Assumptions ($ millions)	2001/02		Budget Estimate 2002/03	Plan 2003/04	Plan 2004/05	Sensitivities 2002/03
	July 30 Update	Revised Forecast				
British Columbia Lottery Corporation						
Net income	585	600	660	715	765	
Dividend to CRF	429	444	476	553	596	
Capital spending	26	26	26	26	26	
Gaming activity	+5.0%	+6.8%	+7.9%	+7.5%	+6.5%	±1% in gaming activity = ±$6 million
British Columbia Railway Company						
Net income (loss)	1	(118)	14	52	74	Total traffic disruption could reduce net income by $4 million per week.
Capital spending	72	73	66	125	64	
Restructing costs	—	100	—	—	—	
Insurance Corporation of British Columbia						
Net income (loss)	35	(258)	(10)	22	51	
Investment income	430	448	399	347	347	+0.25% in investment returns = ±$14 million
Capital spending						
• operational	43	25	30	30	30	±1% in investment balance = ±$4 million
• ICBC Properties Ltd.	108	82	86	—	—	
Restructuring costs	—	42	15	—	—	
Policy premium revenue trend	+2.0%	+2.5%	+5.2%	+8.8%	+6.0%	±1% in premium revenue = ±$26 million
Premium rate changes	None	+7.4% effective Nov 7/01	CPI+	CPI+	CPI+	±1% in assumed claims trend = ±$21-25 million
Claims-incurred trends	0%	+5.6%	+2.0%	+2.9%	+3.8%	±1% in prior year unpaid claims estimate = ±$40 million
Adjustment to prior year claims	(48)	(12)	—	—	—	

TABLE A12
SUMMARY ACCOUNTS STAFF UTILIZATION[1]

	2001/02		Budget			
	July 30 Update[2]	Revised Forecast[2]	Estimate 2002/03	Plan 2003/04	Plan 2004/05	Per Cent Change[3]
Consolidated revenue fund (e.g. ministries and special offices)[4]	35,046	33,792	**31,608**	28,460	23,233	(33.7)
Taxpayer-supported Crown corporations and agencies[5]	9,142	9,154	**8,800**	8,143	7,914	(13.4)
Total staff utilization	44,188	42,946	**40,408**	36,603	31,147	(29.5)

[1] Staff utilization is measured in full-time equivalents (FTEs). FTEs are calculated by dividing the total hours of employment paid for in a given period by the number of hours an individual, full-time person would normally work in that period. This does not equate to the physical number of employees. For example, two half-time employees would equal one FTE, or alternatively, three FTEs may represent two full-time employees who have worked sufficient overtime hours to equal an additional FTE.

[2] Restated to reflect the inclusion of Forest Renewal BC and BC Transportation Financing Authority employees with ministries and special offices.

[3] Change between the 2004/05 plan and the July 30 Update.

[4] The planned reductions are ministry estimates based on their service plans.

[5] The planned reductions are based on service plans of the various Crown corporations and agencies. In 2002/03, the reduction in FTEs is primarily due to the discontinuance of program funding previously provided by Forest Renewal BC which has been dissolved effective 2001/02. These forecast reductions are subject to the decisions of Crown corporations and agencies as a result of core program reviews that are currently underway.

TABLE A12
SUMMARY ACCOUNTS STAFF UTILIZATION[1]

	2001/02		Budget			
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[5] The planned reductions are based on service plans of the various Crown corporations and agencies. In 2002/03, the reduction in FTEs is primarily due to the discontinuance of program funding previously provided by Forest Renewal BC which has been dissolved effective 2001/02. These forecast reductions are subject to the decisions of Crown corporations and agencies as a result of core program reviews that are currently underway.

TABLE A13
SUMMARY ACCOUNTS BALANCE SHEET

	Actual March 31 2001[1]	July 30 Update March 31 2002[1]	Revised Forecast March 31 2002	**Budget Estimate March 31 2003**	Plan March 31 2004	Plan March 31 2005
				($ millions)		
Assets						
Cash and temporary investments	554	475	588	**381**	370	388
Other working capital assets[2]	4,884	4,870	4,325	**4,545**	4,813	5,082
Capital assets and investments (net of amortization)						
— Net investment in self-supported Crown corporations	*3,001*	*3,067*	*2,521*	***2,595***	*2,769*	*2,884*
— Loans for purchases of assets recoverable from agencies[3]	*7,437*	*7,343*	*7,785*	***8,087***	*8,426*	*8,566*
— Prepaid capital advances	*6,905*	*7,206*	*7,106*	***7,424***	*7,530*	*7,598*
— Tangible capital assets	*11,119*	*11,634*	*11,296*	***11,525***	*11,549*	*11,609*
	28,462	29,250	28,708	**29,631**	30,274	30,657
Warehouse borrowing program assets	1,312	600	1,100	**—**	—	—
	35,212	**35,195**	**34,721**	**34,557**	**35,457**	**36,127**
Liabilities						
Current liabilities[4]	3,876	3,742	4,198	**4,238**	4,248	4,301
Unfunded pension liabilities	1,477	139	13	**13**	13	13
Debt						
— Taxpayer-supported debt	*24,997*	*28,220*	*27,370*	***31,601***	*33,917*	*34,361*
— Commercial Crown corporations and agencies	*7,570*	*7,458*	*7,915*	***8,377***	*8,608*	*8,791*
— Warehouse borrowing program	*1,312*	*600*	*1,100*	**—**	—	—
— Forecast borrowing allowance	—	*500*	—	***750***	*750*	*750*
	33,879	*36,778*	*36,385*	***40,728***	*43,275*	*43,902*
Less: guarantees and non-guaranteed debt[5]	*(597)*	*(541)*	*(488)*	***(635)***	*(492)*	*(502)*
	33,282	36,237	35,897	**40,093**	42,783	43,400
	38,635	**40,118**	**40,108**	**44,344**	**47,044**	**47,714**
Net equity (deficiency)[6]	(3,423)	(4,923)	(5,387)	**(9,787)**	(11,587)	(11,587)
	35,212	**35,195**	**34,721**	**34,557**	**35,457**	**36,127**

[1] Restated to reflect changes in accounting estimates consistent with the presentation used in the 2002/03 Budget Estimate.
[2] Accounts receivable, loans, inventories and other assets/investments.
[3] Includes loans to commercial Crown corporations for the purchase of capital assets.
[4] Accounts payable, accrued liabilities and deferred revenue.
[5] Third party guarantees, and provincial guarantees and non-guaranteed debt of commercial Crown corporations and agencies.
[6] Accumulated deficits of the government and Crown corporations and agencies plus accounting adjustments resulting from changes in accounting policy.

TABLE A13a
CHANGES IN SUMMARY ACCOUNTS FINANCIAL POSITION

	2001/02 July 30 Update	2001/02 Revised Forecast	Budget Estimate 2002/03	Plan 2003/04	Plan 2004/05
			($ millions)		
(Surplus)/deficit for the period	**1,500**	**1,964**	**4,400**	**1,800**	**—**
Increase (reduction) in cash and temporary investments	**(79)**	**34**	**(207)**	**(11)**	**18**
Capital asset and investment changes:					
Increase (decrease) in assets related to taxpayer-supported capital investments[1]	1,882	1,594	**1,669**	1,368	1,255
Less: depreciation and other accounting changes	(1,066)	(1,216)	**(1,122)**	(1,238)	(1,127)
	816	378	**547**	130	128
Increase (decrease) in loans to commercial Crown corporations for asset purchases[1]	1,021	899	**1,061**	1,048	941
Less: repayments and other accounting changes	(1,115)	(551)	**(759)**	(709)	(801)
	(94)	348	**302**	339	140
Increase (decrease) in investment in commercial Crown corporations	66	(480)	**74**	174	115
	788	**246**	**923**	**643**	**383**
Non-cash and other working capital changes:					
Reduction in unfunded pension liability	1,338	1,464	**—**	—	—
Other working capital changes and adjustments	64	(990)	**327**	115	226
	1,402	**474**	**327**	**115**	**226**
Net debt increase (decrease) for government and its Crown corporations and agencies	**3,611**	**2,718**	**5,443**	**2,547**	**627**
Increase (decrease) in warehouse borrowing investments	**(712)**	**(212)**	**(1,100)**	—	—
Increase (decrease) in total provincial debt	**2,899**	**2,506**	**4,343**	**2,547**	**627**

[1] See Table 1.8 for details on capital spending.

TABLE A13
SUMMARY ACCOUNTS BALANCE SHEET

	Actual March 31 2001[1]	July 30 Update March 31 2002[1]	Revised Forecast March 31 2002	**Budget Estimate March 31 2003**	Plan March 31 2004	Plan March 31 2005
				($ millions)		
Assets						
Cash and temporary investments	554	475	588	**381**	370	388
Other working capital assets[2]	4,884	4,870	4,325	**4,545**	4,813	5,082
Capital assets and investments (net of amortization)						
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— Loans for purchases of assets recoverable from agencies[3]	*7,437*	*7,343*	*7,785*	***8,087***	*8,426*	*8,566*
— Prepaid capital advances	*6,905*	*7,206*	*7,106*	***7,424***	*7,530*	*7,598*
— Tangible capital assets	*11,119*	*11,634*	*11,296*	***11,525***	*11,549*	*11,609*
	28,462	29,250	28,708	**29,631**	30,274	30,657
Warehouse borrowing program assets	1,312	600	1,100	**—**	—	—
	35,212	**35,195**	**34,721**	**34,557**	**35,457**	**36,127**
Liabilities						
Current liabilities[4]	3,876	3,742	4,198	**4,238**	4,248	4,301
Unfunded pension liabilities	1,477	139	13	**13**	13	13
Debt						
— Taxpayer-supported debt	*24,997*	*28,220*	*27,370*	***31,601***	*33,917*	*34,361*
— Commercial Crown corporations and agencies	*7,570*	*7,458*	*7,915*	***8,377***	*8,608*	*8,791*
— Warehouse borrowing program	*1,312*	*600*	*1,100*	**—**	—	—
— Forecast borrowing allowance	—	*500*	—	***750***	*750*	*750*
	33,879	*36,778*	*36,385*	***40,728***	*43,275*	*43,902*
Less: guarantees and non-guaranteed debt[5]	*(597)*	*(541)*	*(488)*	***(635)***	*(492)*	*(502)*
	33,282	36,237	35,897	**40,093**	42,783	43,400
	38,635	**40,118**	**40,108**	**44,344**	**47,044**	**47,714**
Net equity (deficiency)[6]	(3,423)	(4,923)	(5,387)	**(9,787)**	(11,587)	(11,587)
	35,212	**35,195**	**34,721**	**34,557**	**35,457**	**36,127**

[1] Restated to reflect changes in accounting estimates consistent with the presentation used in the 2002/03 Budget Estimate.
[2] Accounts receivable, loans, inventories and other assets/investments.
[3] Includes loans to commercial Crown corporations for the purchase of capital assets.
[4] Accounts payable, accrued liabilities and deferred revenue.
[5] Third party guarantees, and provincial guarantees and non-guaranteed debt of commercial Crown corporations and agencies.
[6] Accumulated deficits of the government and Crown corporations and agencies plus accounting adjustments resulting from changes in accounting policy.

TABLE A13a
CHANGES IN SUMMARY ACCOUNTS FINANCIAL POSITION

	2001/02 July 30 Update	2001/02 Revised Forecast	Budget Estimate 2002/03	Plan 2003/04	Plan 2004/05
			($ millions)		
(Surplus)/deficit for the period	**1,500**	**1,964**	**4,400**	**1,800**	**—**
Increase (reduction) in cash and temporary investments	**(79)**	**34**	**(207)**	**(11)**	**18**
Capital asset and investment changes:					
Increase (decrease) in assets related to taxpayer-supported capital investments[1]	1,882	1,594	1,669	1,368	1,255
Less: depreciation and other accounting changes	(1,066)	(1,216)	(1,122)	(1,238)	(1,127)
	816	378	547	130	128
Increase (decrease) in loans to commercial Crown corporations for asset purchases[1]	1,021	899	1,061	1,048	941
Less: repayments and other accounting changes	(1,115)	(551)	(759)	(709)	(801)
	(94)	348	302	339	140
Increase (decrease) in investment in commercial Crown corporations	66	(480)	74	174	115
	788	**246**	**923**	**643**	**383**
Non-cash and other working capital changes:					
Reduction in unfunded pension liability	1,338	1,464	—	—	—
Other working capital changes and adjustments	64	(990)	327	115	226
	1,402	**474**	**327**	**115**	**226**
Net debt increase (decrease) for government and its Crown corporations and agencies	**3,611**	**2,718**	**5,443**	**2,547**	**627**
Increase (decrease) in warehouse borrowing investments	**(712)**	**(212)**	**(1,100)**	**—**	**—**
Increase (decrease) in total provincial debt	**2,899**	**2,506**	**4,343**	**2,547**	**627**

[1] See Table 1.8 for details on capital spending.

TABLE A14
PROVINCIAL DEBT SUMMARY[1]

As at March 31	Actual 1999	Actual 2000	Actual 2001	2002 July 30 Update	2002 Revised Forecast	Budget Estimate 2003
	($ millions unless otherwise indicated)					
Taxpayer-supported debt						
Provincial government direct operating[2]	12,217	13,872	12,113	14,142	13,876[3]	17,182
Education facilities						
Schools	3,261	3,609	3,880	4,130	4,152	4,375
Post-secondary institutions	1,336	1,369	1,383	1,475	1,457	1,637
	4,597	4,978	5,263	5,605	5,609	6,012
Health facilities	1,282	1,451	1,780	2,021	1,950	2,199
Highways, ferries and public transit						
BC Transportation Financing Authority	1,433	1,843	2,197	2,559	2,520	2,743
British Columbia Ferry Corporation	973	24	21	58	34	72
British Columbia Transit	59	79	75	82	82	94
Public transit	987	952	948	941	938	937
SkyTrain extension	133	488	836	1,144	1,071	1,214
Rapid Transit Project 2000 Ltd.	56	101	114	—	6	—
	3,641	3,487	4,191	4,784	4,651	5,060
Other						
British Columbia Buildings Corporation	715	615	610	614	597	538
552513 British Columbia Ltd. (Skeena Cellulose Inc.)	—	—	337	356	—[3]	—
Social housing[4]	183	205	265	281	285	218
Homeowner Protection Office	11	34	71	82	112	139
577315 British Columbia Ltd. (Western Star Trucks Holdings Ltd.)	—	62	—	—	—	—
Universities and colleges — fiscal agency loans	137	130	124	121	115	113
Student assistance loans	287	267	159	121	94	73
Other[5]	133	92	84	93	81	67
	1,466	1,405	1,650	1,668	1,284	1,148
Total taxpayer-supported debt	**23,203**	**25,193**	**24,997**	**28,220**	**27,370**	**31,601**
Self-supported debt						
Commercial Crown corporations and agencies:						
British Columbia Hydro and Power Authority	7,474	6,945	6,852	6,654	7,076	7,442
British Columbia Railway Company	607	655	603	597	634	638
552513 British Columbia Ltd. (Skeena Cellulose Inc.)	221	280	—	—	—	—
Columbia Basin Power Company[6]	94	94	93	118	120	285
Columbia Power Corporation	—	—	20	87	72	—
Liquor Distribution Branch	3	3	2	2	13	12
	8,399	**7,977**	**7,570**	**7,458**	**7,915**	**8,377**
Warehouse borrowing program	**658**	**1,320**	**1,312**	**600**	**1,100**	**—**
Total self-supported debt	**9,057**	**9,297**	**8,882**	**8,058**	**9,015**	**8,377**
Forecast allowance	**—**	**—**	**—**	**500**	**—**	**750**
Total provincial debt	**32,260**	**34,490**	**33,879**	**36,778**	**36,385**	**40,728**
Total provincial debt as a per cent of GDP	27.9%	28.6%	26.6%	28.2%	28.2%	31.3%
Taxpayer-supported debt as a per cent of GDP	20.1%	20.9%	19.6%	21.7%	21.2%	24.3%

[1] Debt is after deduction of sinking funds and unamortized discounts, and excludes accrued interest. Government direct and fiscal agency accrued interest is reported in the government's accounts as an accounts payable.
[2] A change in accounting policy has resulted in vehicle leases being recorded as capital costs rather than operating expenditures. Government operating debt has been restated to include the vehicle lease obligations as follows: 1998/99 — $27 million, 1999/00 — $39 million, and 2000/01 — $44 million.
[3] By March 31, 2002, Skeena Cellulose Inc. will have either been sold or declared bankrupt. In either case, debt of 552513 British Columbia Ltd. (Skeena Cellulose Inc.), will have been assumed by the provincial government ($261 million) and by the minority shareholder ($94 million).
[4] Includes the British Columbia Housing Management Commission and the Provincial Rental Housing Corporation.
[5] Includes the British Columbia Assessment Authority, Pacific Racing Association, and other taxpayer-supported Crown corporations and agencies. Also includes loan guarantees to agricultural producers, guarantees issued under economic development and home mortgage assistance programs, and loan guarantee provisions.
[6] A joint venture of the Columbia Power Corporation and Columbia Basin Trust.

TABLE A15
KEY DEBT INDICATORS

	For fiscal year ending March 31					
				2002		
	Actual 1999	Actual 2000	Actual 2001	July 30 Update	Revised Forecast	Budget Estimate 2003
Debt to revenue (per cent)						
Total provincial	103.1	102.4	83.5	95.2	98.2	120.1
Taxpayer-supported	99.6	101.7	90.4	109.0	107.0	127.9
Debt per capita ($)[1]						
Total provincial	8,071	8,562	8,347	8,972	8,883	9,866
Taxpayer-supported	5,805	6,254	6,159	6,885	6,682	7,655
Debt to GDP (per cent)[2]						
Total provincial	27.9	28.6	26.6	28.2	28.2	31.3
Taxpayer-supported	20.1	20.9	19.6	21.7	21.2	24.3
Interest bite (cents per dollar of revenue)[3]						
Total provincial	7.8	7.5	6.4	6.8	6.8	7.7
Taxpayer-supported	7.4	7.2	6.8	7.4	7.1	8.1
Interest costs ($ millions)						
Total provincial	2,452	2,528	2,604	2,616	2,504	2,628
Taxpayer-supported	1,723	1,785	1,871	1,913	1,803	2,007
Interest rate (per cent)[4]						
Taxpayer-supported	7.6	7.4	7.5	7.2	6.9	6.8
Background Information						
Revenue ($ millions)						
Total provincial[5]	31,294	33,679	40,570	38,624	37,053	33,918
Taxpayer-supported[6]	23,285	24,784	27,642	25,898	25,572	24,703
Total debt ($ millions)[7]						
Total provincial	32,260	34,490	33,879	36,778	36,385	40,728
Taxpayer-supported[8]	23,203	25,193	24,997	28,220	27,370	31,601
Provincial GDP ($ millions)[9]	115,604	120,608	127,564	130,190	128,840	130,100
Population (thousands at July 1)[10]	3,997	4,028	4,059	4,099	4,096	4,128

[1] The ratio of debt to population (e.g. 2003 debt divided by population at July 1, 2002).
[2] The ratio of debt outstanding at fiscal year end to provincial nominal gross domestic product (GDP) for the calendar year ending in the fiscal year (e.g. 2003 debt divided by 2002 GDP).
[3] The ratio of interest costs (less sinking fund interest) to revenue. Figures include capitalized interest expense in order to provide a more comparable measure to outstanding debt.
[4] Weighted average of the cost of all outstanding debt issues.
[5] Includes revenue of the consolidated revenue fund plus revenue of all Crown corporations and agencies.
[6] Excludes revenue of commercial Crown corporations and agencies.
[7] A change in accounting policy has resulted in vehicle leases being recorded as capital costs rather than operating expenditures. Government operating debt has been restated to include the vehicle lease obligations as follows: 1998/99 — $27 million, 1999/00 — $39 million, and 2000/01 — $44 million.
[8] Excludes debt of commercial Crown corporations and agencies, funds held under the province's warehouse borrowing program and the forecast allowance.
[9] GDP for the calendar year ending in the fiscal year (e.g. GDP for 2002 is used for the fiscal year ending March 31, 2003).
[10] Population at July 1st within the fiscal year (e.g. population at July 1, 2002 is used for the fiscal year ending March 31, 2003).

BRITISH COLUMBIA GOVERNMENT

STRATEGIC PLAN 2002/03 - 2004/05

Restoring Hope & Prosperity

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TABLE OF CONTENTS

Introduction	1
Performance Measures and Evaluations	1
Vision	2
Core Values	2
Links to the New Era Vision	4
Goals, Objectives, Key Measures and Strategies	5
Goal 1	7
Goal 2	11
Goal 3	15
Summary of Goals, Objectives and Key Measures	19

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INTRODUCTION

Since forming the government in June we have focused on delivering key election commitments. Early delivery on our priority program has now set the scene for the development of a longer-term plan for British Columbia. Government has undertaken a core services review of the programs and services it delivers to develop a long-term strategic vision. This vision sees British Columbians as innovators, turning great ideas into great ventures. Our goal is for British Columbia to have the best performing economy and the highest quality of life in North America. Revitalizing economic prosperity is the key to improving our quality of life in British Columbia and sustaining our valued public services. This plan outlines how we will achieve our vision.

It describes:

- The core values that guide government — our beliefs and principles;
- Our goals, objectives and strategies — what we hope to accomplish and how; and
- Performance measures — how we will know whether we are achieving our goals and objectives.

The foundation of this plan is based on three overriding goals: economic growth, supportive social infrastructure and healthy communities and environment. Renewing our economy is unquestionably this government's top priority. It ultimately allows families to prosper and provides funds for government programs.

PERFORMANCE MEASURES AND EVALUATIONS

We have committed to holding this government accountable for measuring the success of its programs. In developing this plan we have drawn from work across the province, and have used sets of evaluations and information that we monitor on a regular basis to assist in the development of key performance measures and indicators. In addition, we have established the British Columbia Progress Board to help define specific economic, social and environmental benchmarks and targets for the tax, regulatory, social and fiscal reforms that government will undertake, and to monitor its performance. This work will assist us in fulfilling the commitment to provide regular reports to British Columbians and the Legislature so that taxpayers can monitor our performance and progress, and hold government accountable for its commitments. This information will be used to determine where follow-up efforts are necessary and additional work is warranted.

This is the first three-year Strategic Plan to be tabled by our government. Significant effort will be required to confirm the baseline data and to refine the benchmarks. Consequently, in most cases we are identifying anticipated directional improvements in performance measures rather than specific targets. We will work with the British Columbia Progress Board and the Provincial Health Officer to establish challenging targets which the government will strive to achieve, and will include specific targets in our next report.

VISION

British Columbia is a prosperous and just province, whose citizens achieve their potential and have confidence in the future.

CORE VALUES

- *Integrity: to make decisions in a manner that is consistent, professional, fair and balanced*
- *Fiscal Responsibility: to implement affordable public policies*
- *Accountability: to enhance efficiency, effectiveness and credibility of government*
- *Respect: to treat all citizens equitably, compassionately and respectfully*
- *Choice: afford citizens the opportunity to exercise self-determination*

LINK TO MINISTRY SERVICE PLANS

The Strategic Plan is the guiding document for government, outlining its goals for the economy, our social infrastructure and our physical environment. It is the umbrella plan for individual ministry service plans, which provide greater detail on performance measures and strategies.

THEMES UNDERLYING THE PLAN

Government will operate in an innovative, enterprising, results-oriented and accountable manner. In doing so, it will adopt the following managerial principles:

- High standards of accountability, consultation and ethics
- Focused and efficient delivery of government services
- Social and fiscal responsibility
- Open and transparent government
- An innovative and goal-oriented public service

VISION

British Columbia is a prosperous and just province, whose citizens achieve their potential and have confidence in the future.

MANAGEMENT THEMES FOR GOVERNMENT

Government is innovative, enterprising, results-oriented and accountable.

LINKS TO THE NEW ERA VISION

The New Era document, which outlined the government's 2001 election policy platform, contained many far-reaching policy objectives. Ten specific objectives were highlighted for the future. Those ten objectives link to the goals described in this Strategic Plan, as outlined below:

GOAL 1: A STRONG AND VIBRANT PROVINCIAL ECONOMY

- A thriving private sector economy that creates high-paying job opportunities.
- The fastest growing technology industry in Canada.
- Greater equity and equality for British Columbia in Canada.
- Responsible, accountable management of public resources and tax dollars.

GOAL 2: A SUPPORTIVE SOCIAL INFRASTRUCTURE

- A top-notch education system for students of all ages.
- High-quality public health care services that meet all patients' needs, where they live and when they need it.
- Better services for children, families and First Nations.
- The most open, accountable and democratic government in Canada.

GOAL 3: SAFE, HEALTHY COMMUNITIES AND A SUSTAINABLE ENVIRONMENT

- Safer streets and schools in every community.
- A leading edge forest industry that is globally recognized for its productivity and environmental stewardship.

These commitments are reflected in the government's Strategic Plan.

GOALS, OBJECTIVES, KEY MEASURES AND STRATEGIES

In keeping with government's vision and values, three strategic goals and a number of strategic objectives have been identified for the next three years. The goals and objectives are sometimes interdependent and need to be jointly considered to identify opportunities for greater efficiencies. Moreover, all of these goals and objectives will be undertaken in the context of government's two most pressing issues — restoring our economy and our fiscal situation to positions of strength while maintaining our commitment to health and education.

As the implementation of a measurement framework for government is a new process, some measures are in the developmental stage and may be general in nature. In some cases performance measure targets are still being developed, and will be refined over time. We have selected measures that represent the strategic direction of government, and have largely drawn from the British Columbia Progress Board, as well as from the Provincial Health Officer and other sources. The Progress Board has used a ten-year performance target horizon rather than the three-year period covered by this Plan. It will take some time to integrate the longer-term performance targets into the government Strategic Plan framework; therefore, we have only set general targets in this Plan. Specific targets for most measures will be included in the government's 2003/04 - 2005/06 Strategic Plan.

GOAL 1 — A STRONG AND VIBRANT PROVINCIAL ECONOMY

British Columbia has had a long history of prosperity and leadership. However, the last decade was one of decline for the province, where British Columbia fell far short of being the leading economic performer in Canada. We want to regain our position of strength, and within the next decade return this province to an unparalleled economic success story. When we survey the economic landscape in the years to come, British Columbians will have much to be proud of, and much to look forward to. Our citizens will have confidence in the provincial economy, its social infrastructure and in themselves to achieve their full potential.

OBJECTIVES AND KEY MEASURES

The objectives and key measures to achieve this goal are as follows:

A. BRITISH COLUMBIA WILL HAVE A SKILLED WORKFORCE

MEASURE: Percentage of the labour force with a **post-secondary certificate or diploma.**

TARGET: Increase the percentage of the workforce with a post-secondary certificate or diploma from the 2001 baseline of 32.4%.

MEASURE: Percentage of British Columbia's workforce comprising **persons employed in natural and applied science related occupations.**

TARGET: Increase the percentage of the workforce in natural and applied science related occupations from the 2000 baseline of 6.3%.

B. BRITISH COLUMBIA WILL HAVE A PROSPEROUS ECONOMY

MEASURE: **Real Gross Domestic Product (GDP) per capita** is a key measure of overall economic activity, expressed in terms of economic output (new goods and services produced) per person.

TARGET: Increase real GDP per capita from the 2000 baseline of $30,664.

MEASURE: Real GDP per hour worked in the business sector indicates overall **efficiency of our labour efforts.**

TARGET: Increase the value of goods and services produced per hour worked from the 2000 baseline of $30.72 / hr.

MEASURE: Total amount of gross **fixed business investment** as a percentage of provincial GDP.

TARGET: Improve upon British Columbia's gross fixed business investment from the 2000 baseline of 17.2% of provincial GDP.

C. BRITISH COLUMBIA WILL HAVE EMPLOYMENT OPPORTUNITIES

MEASURE: **Percentage of employed persons** in the 15 to 64 age cohort.

TARGET: Provide conditions to improve the employment to population ratio from the 2000 baseline of 70.2%.

MEASURE: **Real personal disposable income per capita** represents total income minus taxes paid to all levels of government (i.e. income taxes, property taxes, contributions to social security, etc.) and various fees such as medical insurance premiums, expressed on a per person basis.

TARGET: Growth of British Columbians' real personal disposable income from the 2000 baseline of $19,029 per person.

D. GOVERNMENT WILL BE AFFORDABLE AND FISCALLY RESPONSIBLE

MEASURE: Balance the **provincial government budget.**

TARGET: The provincial budget will be balanced beginning in 2004/05.

MEASURE: **Taxpayer supported debt** in relation to the size of the GDP.

TARGET: Annually reduce the debt burden beginning in 2004/05.

MEASURE: **Provincial government expenditure** as a percentage of GDP.

TARGET: Reduce the level of provincial government expenditure from the 2001/02 forecast of 19.4% of GDP.

GOVERNMENT STRATEGIES AND ACCOUNTABILITY

STRATEGY: INNOVATION AND ECONOMIC GROWTH	ACCOUNTABILITY
Establish Leadership Chairs	Advanced Education
Establish one stop shopping for permitting/licensing	All Ministries
Reduce government red tape	Competition, Science & Enterprise; All Ministries
Develop a coordinated marketing approach for the province	Competition, Science & Enterprise
Work with the private sector to remove barriers to business	Competition, Science & Enterprise

STRATEGY: INNOVATION AND ECONOMIC GROWTH CONTINUED	ACCOUNTABILITY
Eliminate business subsidies	**Competition, Science & Enterprise**
Support a culture of innovation that transfers science and technology from the research stage through to development and the commercial marketplace	Competition, Science & Enterprise; Advanced Education
Implement policies to ensure private sector investment	**Competition, Science & Enterprise; All Ministries**
Develop and implement a long-term plan of economic renewal	Competition, Science & Enterprise; All Ministries
Maintain a competitive tax regime	**Finance**
Develop a program for reforming labour-management relations in British Columbia	Skills Development & Labour
Make the Workers' Compensation Board more accountable, responsive and cost effective	**Skills Development & Labour**

STRATEGY: MANAGEMENT OF GOVERNMENT	ACCOUNTABILITY
All ministries will meet their budget and service plan targets	All Ministries
Streamline the province's fees and licences	**Competition, Science & Enterprise**
Reform the province's Crown corporations so that they focus on public services, efficiency and effective service delivery	Crown Agencies Secretariat; All Ministries
Streamline the capital approval process and sponsor the use of public private partnerships	**Finance; Premier's Office**
Adopt Generally Accepted Accounting Principles	Finance
Incorporating the results of the Fiscal Review Panel, develop a three-year fiscal plan which eliminates the structural deficit and balances the budget by 2004/05	**Finance**
Introduce a cost saving shared service administrative model for government	Management Services; All Ministries
Encourage innovation and an entrepreneurial attitude in the professional public service	**Management Services; All Ministries**
Review the *Freedom of Information and Protection of Privacy Act* to increase openness in government and to reduce compliance costs	Management Services
Increase recovery of revenues owed to government and streamline accounts receivable collections	**Provincial Revenue**

OBJECTIVES AND KEY MEASURES

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GOAL 2 A SUPPORTIVE SOCIAL INFRASTRUCTURE

There is a fundamental relationship between a vibrant economy and healthy social institutions. Our economy will only be strong if our social infrastructure supports a healthy population and a skilled workforce. Healthy economies provide the funds for the social and environmental services required by the public.

Over the next three years we will facilitate the governmental and institutional reforms needed to build and sustain high-performing health, education and social welfare systems. Our systems of justice must be accessible, efficient, fair and affordable. We will ensure our public institutions provide citizens with services that are responsive to individual choice, cost-effectiveness and service quality.

OBJECTIVES AND KEY MEASURES

The objectives and key measures to achieve this goal are as follows:

A. BRITISH COLUMBIANS WILL BE HEALTHY

MEASURE: **Potential years of life lost** measures the rate of lost potential years of life per 1,000 population from all causes of premature death.

TARGET: Decrease the potential years of life lost from the 1995-2000 average of 53.3 per 1,000 population.

MEASURE: **Low birth weight** is a measurement of a percentage of all live births weighing below 2,500 grams.

TARGET: Decrease the percentage of all live births weighing below 2,500 grams from the 2000 baseline of 5.1%.

B. BRITISH COLUMBIA WILL HAVE EXCEPTIONAL EDUCATIONAL INSTITUTIONS

MEASURE: **University completion** measures the percentage of the population, aged 25 to 54, who have completed a university education.

TARGET: Increase the percentage of university graduates in the 25-54 cohort from the 2000 baseline of 27.7%.

MEASURE: Number of **secondary school graduates** per 1,000 population aged 18 years (at July each year).

TARGET: Increase the number of secondary school graduates from the 1999 baseline of 736 per 1,000 population.

C. BRITISH COLUMBIA WILL HAVE A FAIR AND EFFICIENT SYSTEM OF JUSTICE

MEASURE: Mean **number of appearances to complete a criminal case** in Provincial Court.

TARGET: Reduce the number of appearances to complete a criminal case in Provincial Court from the 2000/01 baseline of 5.6.

MEASURE: Proportion of **small claims cases settled through out-of-court mediation** in the Small Claims mediation program.

TARGET: Increase the percentage of small claims settled through dispute resolution from the 2000/01 baseline of 56%.

D. BRITISH COLUMBIANS WILL BE SELF-SUFFICIENT

MEASURE: Number of people under 65 years requiring **income assistance.**

TARGET: Decrease the number of people under 65 years requiring income assistance from the 2000 baseline of 262,000.

MEASURE: Percentage of senior citizens requiring the **maximum Guaranteed Income Supplement.**

TARGET: Decrease the percentage of senior citizens requiring the maximum Guaranteed Income Supplement from the 1999 baseline of 32%.

GOVERNMENT STRATEGIES AND ACCOUNTABILITY

STRATEGY: EDUCATION AND FAMILY SERVICES	ACCOUNTABILITY
Create more choice for students by enhancing online learning, expanding credit transferability between institutions and considering the potential for pursuing degrees from a wider variety of institutions, both public and private	Advanced Education
Rationalize student financial aid programs by combining them into a more coherent, integrated and understandable program and by working towards reducing student loan default rates	Advanced Education
Review tuition policy and develop an approach that balances the appropriate costs of education among government, students and families	Advanced Education
Revise the post-secondary funding formula so that it focuses on results rather than solely on inputs	Advanced Education
Reduce the proportion of children in care while ensuring they are protected	Children & Family Development
Establish a legacy fund for Early Childhood Development	Children & Family Development
Work with the community to develop and implement a new governance and service delivery structure for adult community living services	Children & Family Development

STRATEGY: EDUCATION AND FAMILY SERVICES CONTINUED	ACCOUNTABILITY
Work in partnership with families and communities to create a model that will better meet the needs of children by increasing a family's capacity to care for its children through family development programs	Children & Family Development
Develop an understandable, transparent, comprehensive, population-based funding formula for school districts and independent schools	Education
Increase flexibility and choice in public schooling	Education
Shift the focus of the education system to student achievement and to clear, measurable performance outcomes	Education
Develop accountability contracts with school districts, including the reporting of outcomes, and give school boards increased flexibility	Education

STRATEGY: JUSTICE AND SAFETY	ACCOUNTABILITY
Expand the early use of alternative dispute resolution processes for civil disputes	Attorney General
Undertake a consultation process to review civil liability issues	Attorney General
Increase the use of technology to streamline processes and facilitate access to justice	Attorney General
Review adjudicative agencies and implement a program to improve efficiency and effectiveness	Attorney General
Revise provincial safety standard regulations to self-regulation, compliance and outcome-based codes and standards	Community, Aboriginal & Women's Services
Consolidate consumer protection regulations	Public Safety & Solicitor General
Ensure the development of socially responsible and safe industry practices	Skills Development & Labour
Develop fair and balanced employment standards that allow mutually beneficial relationships between workers and employers	Skills Development & Labour; Gaming, Policy & Enforcement

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Ensure the development of socially responsible and safe industry practices	Skills Development & Labour
Develop fair and balanced employment standards that allow mutually beneficial relationships between workers and employers	**Skills Development & Labour; Competition, Science & Enterprise**

STRATEGY: HEALTH AND HUMAN RESOURCES	ACCOUNTABILITY
Create a health system that is based on three goals: high quality patient-centred care; improved health and wellness for British Columbians; and, sustainable, affordable public health care	Health Planning; Health Services
Shift the system from fragmented management, lack of clear accountability and little focus on patient outcomes to a planned, well-managed system that responds to patient needs and is accountable to the public for results	**Health Planning; Health Services**
Continue to pressure federal government to restore health funding	Health Planning; Health Services; Intergovernmental Relations; Finance
Develop and implement multi-year plans for human resources, health care facilities and medical equipment	**Health Planning; Health Services; Advanced Education**
Institute performance management contracts so health authorities can be more patient-centred, effective, efficient and responsible	Health Services
Plan and proceed with patient care improvements in the areas of prevention, chronic care, primary care, mental health and community care	**Health Services**
Phase in a population needs-based funding formula to achieve equitable distribution of health dollars	Health Services
Establish a Leadership Council of health system leaders to help set the direction and implement changes to improve the health care system for British Columbians	**Health Services**
Establish the Provincial Health Services Authority to reduce variability in access to specialized services across patient groups and place of residence	Health Services
Establish a new and cost-effective strategy to provide 5,000 new intermediate and long-term care beds over the next five years	**Health Services**
Implement a planning framework for mental health and intermediate, long-term and home care	Health Services
Develop an information management strategy, focusing on health information for the general population and on data standards for regional health authorities	**Health Services**
Within the current budget allocation ensure early action on mental health services	Health Services
Implement new income assistance principles and guidelines that support clients' efforts to find sustainable employment and assist individuals and families in need	**Human Resources**
Redesign employment programs to move employable clients quickly into the labour market through job search, job placement and labour market specific skills training programs	Human Resources
Develop performance-based management policies which streamline service delivery, increase accountability within the ministry, strengthen contractual relationships with third parties and provide a more efficient appeal system	**Human Resources**

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GOAL 3 — SAFE, HEALTHY COMMUNITIES AND A SUSTAINABLE ENVIRONMENT

Sustained economic competitiveness depends upon us maximizing the benefits from our natural resources, maintaining the quality of our environment, and enhancing the health of our communities.

British Columbia is known for its spectacular scenery and natural environment. At the same time, our land base and natural resources underpin the economy and our local communities and, through resource revenues, contribute to our supportive social infrastructure. Government will maximize the value of these public assets by balancing protection of the physical environment with sustainable economic activity in our natural resource sector.

The health of our communities is equally important to our economic prosperity, our individual well-being and the sustainability of our physical environment. Government will promote communities in which diversity is valued and British Columbians have a sense of personal and public safety. In addition, the provincial government is committed to increasing local autonomy.

OBJECTIVES AND KEY MEASURES

The objectives and key measures to achieve this goal are as follows:

A. BRITISH COLUMBIA WILL HAVE SAFE COMMUNITIES

MEASURE: **Personal and property crime** measures the number of personal and property crimes known to police per 100,000 population.

TARGET: Decrease the number of personal and property crimes from the 2000 baseline of 7,619 per 100,000 population.

MEASURE: **Domestic violence** is measured by the number of reported incidents of domestic violence per 1,000 population.

TARGET: Decrease domestic violence from the 1999 baseline of 2.44 per 1,000 population.

B. LOCAL GOVERNMENTS WILL HAVE INCREASED AUTONOMY

MEASURE: **Increased autonomy** measures the capacity of local governments to make decisions and to fund the services within their jurisdiction.

TARGET: To be determined pending consultation with the Community Charter Council.

C. BRITISH COLUMBIA WILL HAVE A HEALTHY PHYSICAL ENVIRONMENT

MEASURE: **Air quality** measures the amount of fine particulates in the air under 10 microns per cubic metre of air (PM_{10}).

TARGET: Maintain or improve Vancouver's 2000 baseline air quality rating of 2nd amongst metropolitan areas in Canada.

MEASURE: **Wastewater treatment** measures the percentage of the population served by secondary or better wastewater facilities.

TARGET: Improve upon the 1999 baseline of 63% of British Columbia's population served by secondary or better wastewater facilities.

D. BRITISH COLUMBIA WILL HAVE SUSTAINABLE NATURAL RESOURCES

MEASURE: **Renewable energy** measures the production of energy from renewable sources.

TARGET: Increase in renewable energy production from the 1999 baseline of 10%.

MEASURE: **Species at risk** measures the percentage of known native species that are threatened or endangered in the province.

TARGET: Improve on the province's 2000 baseline of 14.2% for species of birds, mammals, reptiles, amphibians, freshwater fish, ferns and orchids at risk.

GOVERNMENT STRATEGIES AND ACCOUNTABILITY

STRATEGY: LAND USE	ACCOUNTABILITY
Streamline the aquaculture system in British Columbia	Agriculture, Food & Fisheries
Develop a market-based timber pricing regime and tenure reform package which will include fair value for the province's timber resource	Forests
Establish a working forest land base	Sustainable Resource Management
Complete land use plans for the remaining priority areas of the province	Sustainable Resource Management
Reform the management of the Agricultural Land Reserve Commission to better reflect local input	Sustainable Resource Management
Create streamlined, user-friendly approval processes for access to Crown land and water resources that generate a fair return to the province	Sustainable Resource Management
Implement a Living Rivers Strategy	Sustainable Resource Management; Agriculture, Food & Fisheries; Water, Land & Air Protection
Rationalize the province's land and resource inventory information systems to create a central source of integrated information that can be accessed by users both within and outside government	Sustainable Resource Management; Forests; Water, Land & Air Protection; Agriculture, Food & Fisheries

STRATEGY: ENVIRONMENTAL PROTECTION AND SAFETY	ACCOUNTABILITY
Strengthen government's capacity to deal with food safety and quality (including animal, fish and plant health)	Agriculture, Food & Fisheries
Develop a made in British Columbia plan to address issues associated with greenhouse gases	**Water, Land & Air Protection; Energy & Mines; Sustainable Resource Management**
Examine opportunities to modernize the current forest regulatory regime to focus on outcome based regulating	Forests
Implement a streamlined, science based, results-oriented regulatory framework to protect human health and the environment	**Sustainable Resource Management; Forests; Energy & Mines; Water, Land & Air Protection; Agriculture, Food & Fisheries**

STRATEGY: RESOURCE MANAGEMENT	ACCOUNTABILITY
Negotiate with the federal government a new national farm insurance program and greater control over fisheries management and revenues	Agriculture, Food & Fisheries; Intergovernmental Relations
Develop an energy policy that balances economic opportunities, conservation considerations and a safe secure energy supply for British Columbians	**Energy & Mines**
Determine the future direction for offshore oil	Energy & Mines; Water, Land & Air Protection
Develop a plan to make the Small Business Forest Enterprise Program more effective, and put it on a commercial footing	**Forests**

C. BRITISH COLUMBIA WILL HAVE A HEALTHY PHYSICAL ENVIRONMENT

MEASURE: **Air quality** measures the amount of fine particulates in the air under 10 microns per cubic metre of air (PM_{10}).

TARGET: Maintain or improve Vancouver's 2000 baseline air quality rating of 2nd amongst metropolitan areas in Canada.

MEASURE: **Wastewater treatment** measures the percentage of the population served by secondary or better wastewater facilities.

TARGET: Improve upon the 1999 baseline of 63% of British Columbia's population served by secondary or better wastewater facilities.

D. BRITISH COLUMBIA WILL HAVE SUSTAINABLE NATURAL RESOURCES

MEASURE: **Renewable energy** measures the production of energy from renewable sources.

TARGET: Increase in renewable energy production from the 1999 baseline of 10%.

MEASURE: **Species at risk** measures the percentage of known native species that are threatened or endangered in the province.

TARGET: Improve on the province's 2000 baseline of 14.2% for species of birds, mammals, reptiles, amphibians, freshwater fish, ferns and orchids at risk.

GOVERNMENT STRATEGIES AND ACCOUNTABILITY

STRATEGY: LAND USE	ACCOUNTABILITY
Streamline the aquaculture system in British Columbia	Agriculture, Food & Fisheries
Develop a market-based timber pricing regime and tenure reform package which will include fair value for the province's timber resource	**Forests**
Establish a working forest land base	Sustainable Resource Management
Complete land use plans for the remaining priority areas of the province	**Sustainable Resource Management**
Reform the management of the Agricultural Land Reserve Commission to better reflect local input	Sustainable Resource Management
Create streamlined, user-friendly approval processes for access to Crown land and water resources that generate a fair return to the province	**Sustainable Resource Management**
Implement a Living Rivers Strategy	Sustainable Resource Management; Agriculture, Food & Fisheries; Water, Land & Air Protection
Rationalize the numerous land and resource inventory information systems to create a central source of integrated information that can be accessed by users both within and outside government	**Sustainable Resource Management; Forests; Energy & Mines; Water, Land & Air Protection; Agriculture, Food & Fisheries**

STRATEGY: ENVIRONMENTAL PROTECTION AND SAFETY	ACCOUNTABILITY
Strengthen government's capacity to deal with food safety and quality (including animal, fish and plant health)	Agriculture, Food & Fisheries
Develop a made in British Columbia plan to address issues associated with greenhouse gases	**Water, Land & Air Protection; Energy & Mines; Sustainable Resource Management**
Examine opportunities to modernize the current forest regulatory regime to focus on outcome based regulating	Forests
Implement a streamlined, science based, results-oriented regulatory framework to protect human health and the environment	**Sustainable Resource Management; Forests; Energy & Mines; Water, Land & Air Protection; Agriculture, Food & Fisheries**

STRATEGY: RESOURCE MANAGEMENT	ACCOUNTABILITY
Negotiate with the federal government a new national farm insurance program and greater control over fisheries management and revenues	Agriculture, Food & Fisheries; Intergovernmental Relations
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STRATEGY: COMMUNITY SERVICES AND INFRASTRUCTURE	ACCOUNTABILITY
Establish workable relationships with First Nations communities	All Ministries
Develop and implement community capacity building programs	All Ministries
Address causes of crime through targeted, coordinated and consultative initiatives	Attorney General
Conduct a referendum on principles for Treaty negotiations	Attorney General
Develop and implement a Community Charter	Community, Aboriginal & Women's Services
Rationalize regulation of the construction/housing industry and develop a plan to address the leaky condominium situation	Community, Aboriginal & Women's Services
Implement active schools, active communities and organized sport strategies	Community, Aboriginal & Women's Services; Education
Focus social housing policy and services on the needs of clients, offering greater flexibility and choice	Community, Aboriginal & Women's Services; Children & Family Development; Human Resources; Health Planning
Involve the private sector in financing highway projects so that new infrastructure can be delivered without the government having to bear the full cost	Transportation
Give communities more say in transportation planning priorities by establishing regional transportation committees that will determine priorities	Transportation
Develop a new plain language *Residential Tenancy Act*	Public Safety & Solicitor General
Aggressively support the 2010 Olympic Bid	Community, Aboriginal & Women's Services; Intergovernmental Relations; Transportation; Competition, Science & Enterprise; Water, Land & Air Protection; Sustainable Resource Management
Hold a Provincial Congress to improve relations across all levels of government	Intergovernmental Relations

SUMMARY OF GOALS, OBJECTIVES AND KEY MEASURES

The Strategic Plan is the guiding document for government, outlining its goals for the economy, our social infrastructure and our physical environment. It is the umbrella plan for individual ministry service plans, which provide greater detail on performance measures and strategies.

GOALS	OBJECTIVES	KEY MEASURES
A strong and vibrant provincial economy	British Columbia will have a skilled workforce	■ Percentage of labour force with post secondary certificate or diploma ■ Percentage of workforce employed in natural and applied science related occupations
	British Columbia will have a prosperous economy	■ Real GDP per capita ■ Real GDP per hour worked ■ Gross fixed business investment
	British Columbia will have employment opportunities	■ Employment to population ratio ■ Real personal disposable income per capita
	Government will be affordable and fiscally responsible	■ Balanced budget ■ Taxpayer supported debt ■ Provincial government expenditure as percentage of GDP
A supportive social infrastructure	British Columbians will be healthy	■ Potential years of life lost ■ Low birth weight
	British Columbia will have exceptional educational institutions	■ Percentage of population completing university ■ Number of secondary school graduates
	British Columbia will have a fair and efficient system of justice	■ Appearances per criminal case ■ Small claims settled through dispute resolution
	British Columbians will be self-sufficient	■ Percentage of population on income assistance ■ Percentage of seniors receiving maximum Guaranteed Income Supplement
Safe, healthy communities and a sustainable environment	British Columbia will have safe communities	■ Personal and property crime rate ■ Domestic violence
	Local governments will have increased autonomy	■ Autonomous local governments
	British Columbia will have a healthy physical environment	■ Air quality ■ Wastewater treatment
	British Columbia will have sustainable natural resources	■ Renewable energy ■ Species at risk

STRATEGY: COMMUNITY SERVICES AND INFRASTRUCTURE	ACCOUNTABILITY
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